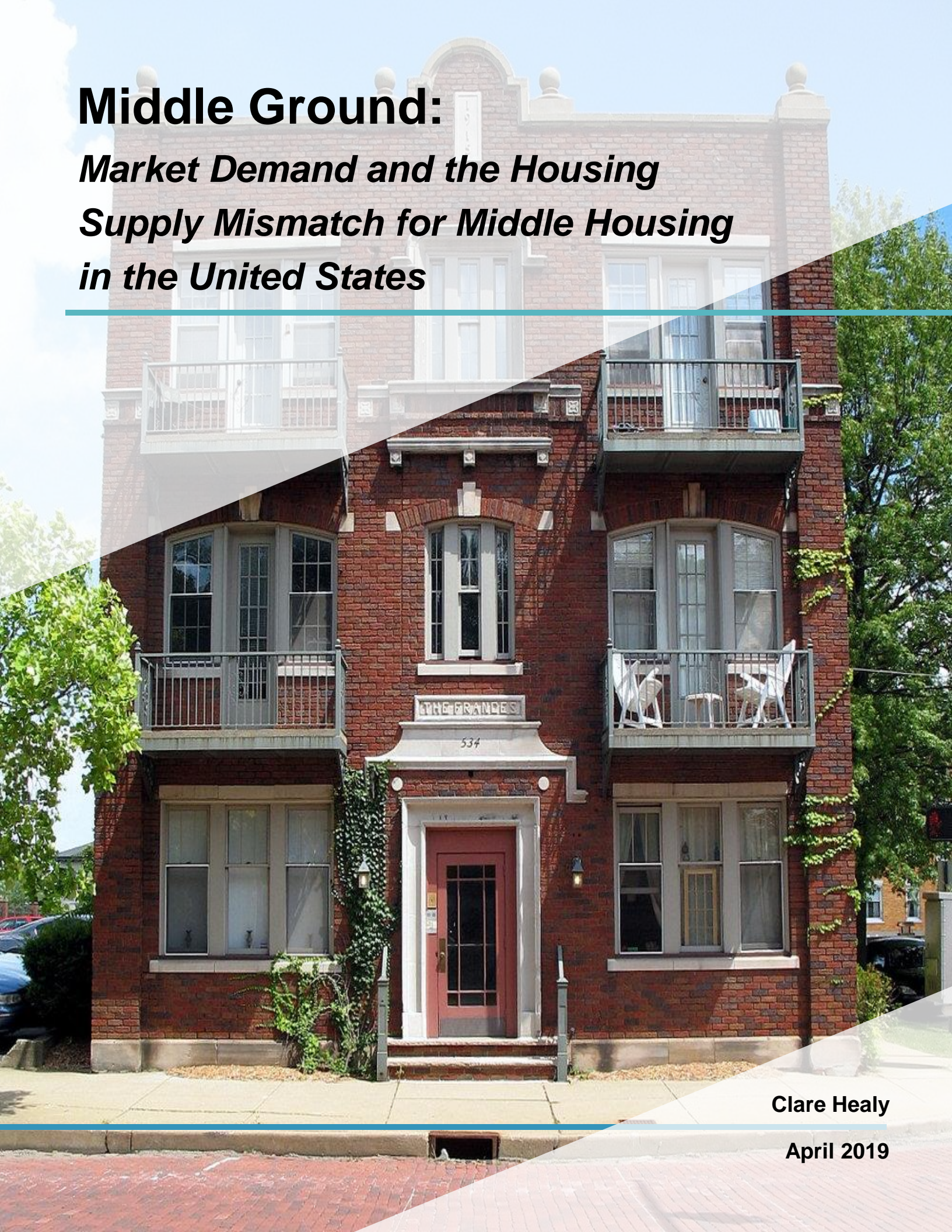


Middle Ground:

Market Demand and the Housing Supply Mismatch for Middle Housing in the United States



Clare Healy

April 2019

Middle Ground: *Market Demand and the Housing Supply Mismatch for Middle Housing in the United States*

This document satisfies the applied research paper requirement of the Master's of City and Regional Planning degree from the Georgia Institute of Technology.

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<https://www.strongtowns.org/journal/2016/11/29/localizing-affordable-housing>

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Author's Note

This report developed out of research for a middle housing-centric development business plan. Upon conducting my research, I discovered just how much data exists to support the market opportunity for middle housing. I also realized that this opportunity is not restricted to just my local market; rather, the opportunity exists in cities and towns across the county. Given that real estate development, particularly small-scale middle housing projects, remains a fundamentally local endeavor, I came to believe that the way to scale up missing middle development is not through one business' monopoly on this niche so much as sharing the case for middle housing with as many developers in as many markets as possible.

And so, I came to the conclusion that this initial research into the supply and demand dynamics surrounding middle housing was worthy of a report in its own right. Thus this report can be thought of as a stepping stone from ideation to eventual business plan formation. I hope it inspires many future business plans, not just my own.

In addition to being a source for future business plan formulation, I also hope developers use this report as an advocacy tool to demonstrate the promise of middle housing to lenders, local government officials, and other "gatekeepers" of the real estate development world whose current way of doing business may preclude the delivery of middle housing. As the literature documents extensively, there are several barriers to the implementation of middle housing, including local zoning ordinances, development regulations, and lending conventions. What this report can do is communicate why it is worth undertaking the hard work of amending these regulations to enable more middle housing development. The process of amending the roadblocks to implementation will be easier if all of the development stakeholders have a shared understanding of the demand for more middle housing and the mismatch between this demand and the housing supply that exists today.

--Clare Healy

Introduction

The purpose of this report is to analyze the market case—in other words, the abundance of demand and lack of supply—for middle-scale, middle-density housing. This category of housing used to be common in our cities but today is better known as the “missing middle,” due to demolition of the existing stock and a lack of new construction.

The concept of missing middle housing has gained traction among urban planning circles in recent years, and even in the popular press. As the concept generates more buzz, it is important to step back and substantiate the degree to which middle housing is a bonafide market opportunity that satisfies unmet housing demand, rather than a fad. This established, stakeholders in the real estate development process can move forward to the more difficult task of addressing the many known regulatory and financial challenges associated with actually building middle housing today. This report surveys these challenges briefly but is more focused on emphasizing the market opportunity at stake more than laying out regulatory solutions, which is already well-addressed in the literature. This report operates on the belief that what is needed today is not so much solutions as motivation to actually work toward those solutions.

Consequently, this report is intended to fill a void in existing missing middle resources in two respects. First, the comprehensiveness of its analysis of supply and demand: this report lays out all of the major supply and demand factors that undergird the market case for missing middle housing in one place. Second, the report contextualizes the opportunity within long-term trends that go back decades in order to emphasize the deep-seated, structural nature of the market opportunity and refute the notion that this is just a post-recession correction or another short-term trend that does not merit a rework of existing regulations and ways of doing business, as will be necessary for a middle housing renaissance.



Executive Summary

Decades of demographic and economic trends suggests there is substantial demand for middle housing in the United States today. The country's households are becoming smaller, older, and moving away from the traditional nuclear family structure. This is driving a corresponding structural shift in lifestyle preferences, which are more oriented toward walkable neighborhoods and multifamily living than the housing stock would suggest. Housing affordability is also a growing problem that constrains an already limited set housing and location choices vis a vis household preferences.

Trends that indicate substantial depth of market for middle housing are going unanswered by new residential construction. Instead, the United States housing stock is increasingly bifurcated between suburban single-family homes and urban high-density apartments. This has created a vacuum in the middle of the market and a growing mismatch between housing demand and housing supply. In this vacuum is a major business opportunity for the next generation of developers and homebuilders.

The market case for more middle housing development is enhanced by the potential social benefits of middle housing, including its ability to enhance housing affordability, support more sustainable lifestyles and development patterns, promote a more diffuse and incremental pace of neighborhood change, and elevate small local developers who know and raise funds in their own communities.

Middle housing, therefore, has the potential to be a triple-bottom-line approach to new housing development if developers, local officials, and other stakeholders work together to overcome key regulatory and financial barriers to building middle housing. While difficult, this task has greater potential for success when it is rooted in an understanding of the value of this housing as a market opportunity and community asset as demonstrated by this report.



Structure of this Report

This report is divided into five sections:

- 1. Explanation of missing middle housing:** This section characterizes middle housing as a product category, and explains why it is considered to be “missing” from the market today.
- 2. The demand case for middle housing:** This section looks at the national demographic and economic trends that drive demand for middle housing, such as household size, age, and income. This section touches on many of the same themes as existing articles and reports related to middle housing, but unlike the existing literature, this report takes a long-term historical view, analyzing these trends over the course of decades rather than the past few years. This provides the context needed to see that these trends are structural shifts in the demographic and economic composition of the country that demand new housing options.
- 3. Housing supply-demand mismatch:** Having established that demand conditions are ripe for middle housing, the report examines to what degree the market has been responding to this demand in the form of new middle housing supply. It finds a mismatch between supply and demand, which serves to increase the market opportunity for new middle housing.
- 4. The policy case for middle housing:** The case for building more middle housing goes beyond supply and demand dynamics and indeed holds the potential to be a triple-bottom-line investment with as much of an environmental and equity basis as an economic one.
- 5. The next step: overcoming barriers to building middle housing:** The report concludes by briefly outlining key roadblocks that threaten developers’ ability to actually build new middle housing. Having recognized the business case and societal benefits of middle housing laid out in the course of this report, the next step for developers and other development stakeholders would be to work toward identifying and overcoming these barriers as they exist in their own communities.

1. What is Missing Middle Housing?

Missing Middle Housing Definition

Missing middle housing:

“House-scale buildings with multiple units in walkable neighborhoods.”

--Daniel Parolek

“Missing middle” describes the range of housing typologies whose scale and density falls somewhere between single-family homes and conventional apartment complexes.¹ The term came into use in 2010 by architect and urban designer Daniel Parolek of the design and planning firm Opticos Design.

Middle housing used to be common across America, but its share of the housing stock has declined since World War II. The reasons are numerous, from the creation of the Federal Housing Association to insure mortgages for single-family homes to the adoption of suburban style zoning that only permits single-family detached or large multifamily development.² This report is not an autopsy of all the causes; instead, it focuses on the fact that the middle of America’s housing stock has effectively been hollowed

out. Today, new housing typically takes the form of relatively large detached single-family units, or relatively high-density apartment complexes that approach what Parolek calls “scary density.”³

But the bifurcation that existing housing stock reflects is a false choice; we have forgotten that there are development options in the middle. Middle housing is just dense enough to increase walkability through compact development, provide new housing options for small households, and achieve the residential density needed to support neighborhood retail.⁴ These buildings achieve these benefits of large multifamily properties without feeling out of scale with single-family homes, sacrificing neighborhood charm, or being significantly more complex or costly to build.⁵ Parolek calls this “stealth density;” writer Lloyd Alter calls it “goldilocks density.”⁶ By either name, these benefits correspond to the needs and preferences of a growing share of America’s households, as the next section of this report will show.

Common Missing Middle Housing Typologies, In Order of Increasing Scale

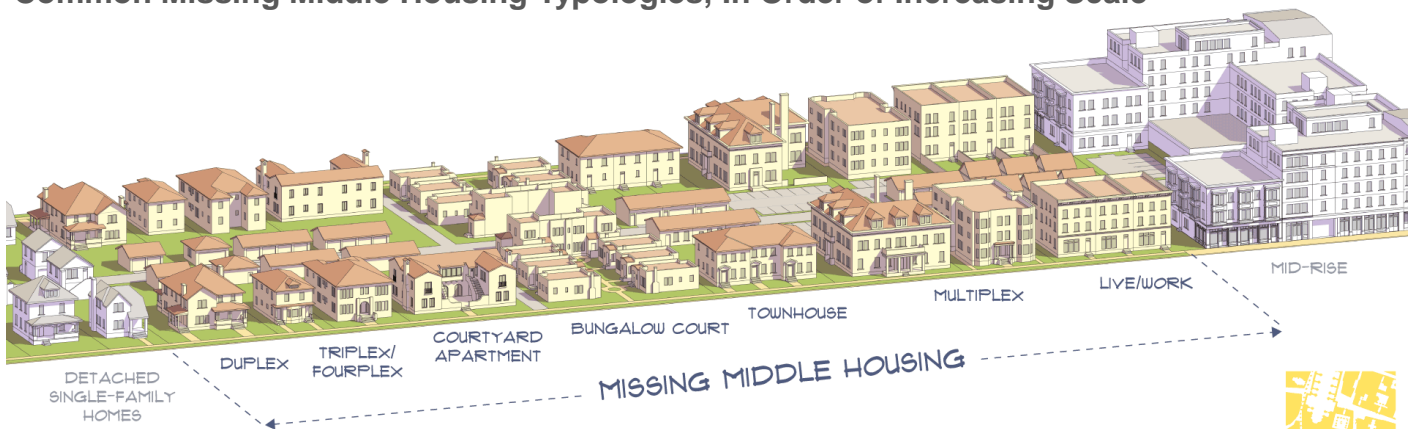


Image source: Opticos Design. “What is Missing Middle Housing?”

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¹ Opticos Design. “What is Missing Middle Housing?”

² Various. See for example: Parolek, 2016 or Nelson, 2012.

³ Parolek, 2016.

⁴ Opticos Design. “What are the Characteristics of Missing Middle Housing?”

⁵ Ibid.

⁶ Kolson Hurley, 2016.

A New Urbanist Development Paradigm

Middle housing nests within the ideology of the New Urbanism movement, which the Congress for the New Urbanism describes as “a planning and development approach based on the principles of how cities and towns had been built for the last several centuries: walkable blocks and streets, housing and shopping in close proximity, and... human-scale urban design.”¹ New Urbanism is a reaction and a foil to the suburban sprawl that has characterized development in the United States since World War II. Once a fringe concept, the movement is now mainstream. Notably, the Urban Land Institute, the professional organization for real estate developers, has arguably absorbed the new urbanist agenda into its own platform.²

New Urbanism operationalizes its principles using a rural-to-urban transect model, which organizes all places, from the most rural to the most urban, into one of six distinct character zones (“Transect Zones”).³ The scale and density of development, it follows, should correspond to the zone in which the development is located, so as to avoid endless, undifferentiated sprawl.

The T4 and T5 transect zones call for the middle-scale, middle-density character that middle housing can provide. These zones are key to creating satisfying and appropriate transitions between a community’s suburban areas and its urban nodes. For these neighborhoods to achieve their desired character, which includes not only aesthetic conditions but also walkability and neighborhood retail viability, middle housing should be a part of the neighborhood’s housing mix.

New Urbanism Transect Zones

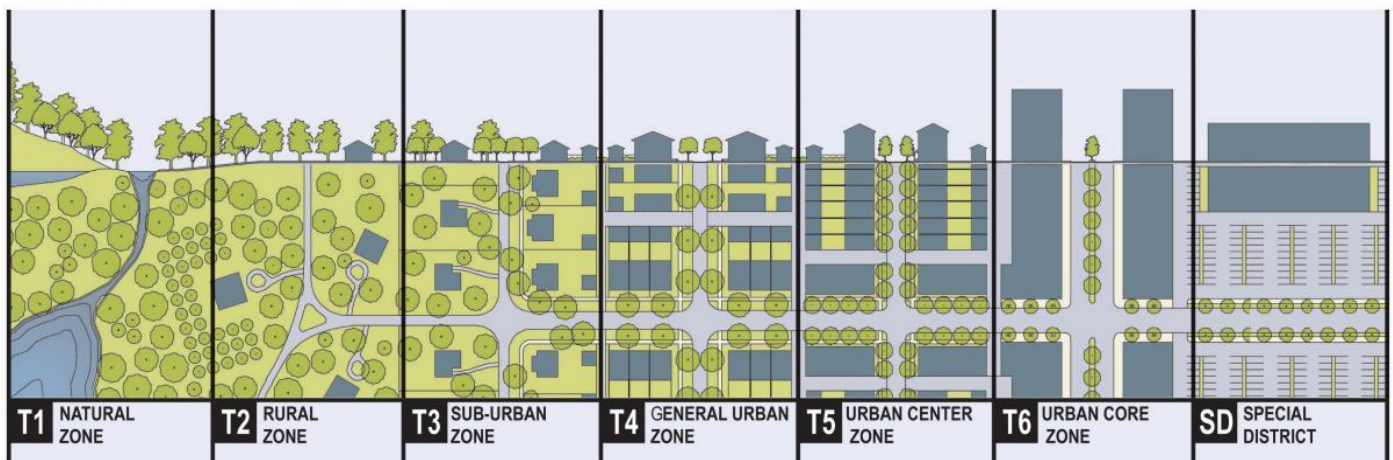


Image source: Center for Applied Transect Studies.

¹ Center for the New Urbanism

² Urban Land Institute

³ Center for Applied Transect Studies

Common Middle Housing Product Types

The table below details some of the most common middle housing typologies and their associated density.¹ It shows that middle housing types provide increased density while remaining compatible with single-family neighborhoods. This is accomplished through lot and building sizes that are comparable to conventional new single-family homes. Most missing middle buildings are under 14 units and three stories tall, although Opticos emphasizes that building scale is more important than the number of units.² For the purpose of this report, middle housing will be considered all attached and multifamily buildings with fewer than 20 units to align with the housing categories tracked by the U.S. Census Bureau.

Dimensions for Common Missing Middle Housing Typologies

Missing Middle Housing Type	Lot Width	Lot Area (Acres)	Units	Unit Size (Sq Ft)	Net Density (Units/Acre)	Gross Density (Units/Acre)
1. Side-by-Side Duplex	40'-75'	0.10-0.26	2	600-2,400	8-19	6-14
2. Stacked Duplex	40'-75'	0.09-0.26	2	600-2,400	8-22	7-16
3. Fourplex	50'-75'	0.11-0.26	4	500-1,200	15-35	13-25
4. Bungalow Court	100'-150'	0.23-0.52	5-10	500-800	19-35	8-31
5. Small Multiplex	50'-75'	0.11-0.26	6-10	500-1,200	23-70	19-62
<i>Versus Conventional New Single-Family Home:</i>	36'-70'	0.08-0.25	1	1,800+	4-12	3-9



1. Side-by-Side Duplex: A structure with two units, both of which face and are entered from the street.



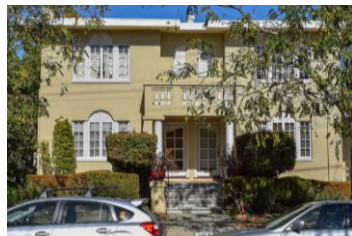
5. Bungalow Court: A series of small, detached structures arranged to define a shared court that is perpendicular to the street. The shared court takes the place of a private rear yard.



2. Stacked Duplex: A structure with two units, one on top of the other, both of which face and are entered from the street.



6. Small Multiplex: A medium structure containing side-by-side and/or stacked dwelling units, typically with one shared entry or individual entries along the front.



3. Fourplex: A medium structure with four units: typically two on the ground floor and two above with a shared entry.

¹ All missing middle table data, text, and photos: Opticos Design. "The Types."

² Kolson Hurley, 2016.

Note: Lot dimensions and density depends on whether front-loaded (parking in front) or rear-loaded (alley parking). Alleys decrease the amount of frontage needed, thereby increasing the number of units per acre.

2. Demand Trends in Support of Middle Housing

Overview of Demand Trends in Support of Middle Housing

Household demographic and economic characteristics drive demand for housing. In demographic terms, U.S. households are becoming decidedly smaller, older, and moving away from the traditional nuclear family household structure. These changes are manifesting in changing housing and neighborhood preferences, with households today more likely to prefer multifamily housing and walkable communities with easy access to shops and restaurants, if the option were available in their price range. Because these preferences are shaped by decades shifting demographics, demand for middle housing is less a temporary feature of the current market cycle than a structural shift in housing demand that is only expected to continue.

Meanwhile, economically, households have experienced uneven income growth, with most of the growth accruing to the highest-income households. This segments demand for middle housing into two basic categories of households: price-constrained households for whom housing decisions are primarily based on value, and more affluent households for whom housing decisions are primarily based on lifestyle.¹ By virtue of their small unit sizes but also their compatibility with in-demand walkable urban neighborhoods, middle housing can be positioned to fulfill either demand segment.

Appeal of Middle Housing based on Housing Choice Motivations



Motivated by VALUE

Middle housing offers:

- Smaller unit sizes
- Lower cost relative to single-family detached housing
- Potential for car-light or car-free lifestyle for additional savings

Motivated by LIFESTYLE

Middle housing offers:

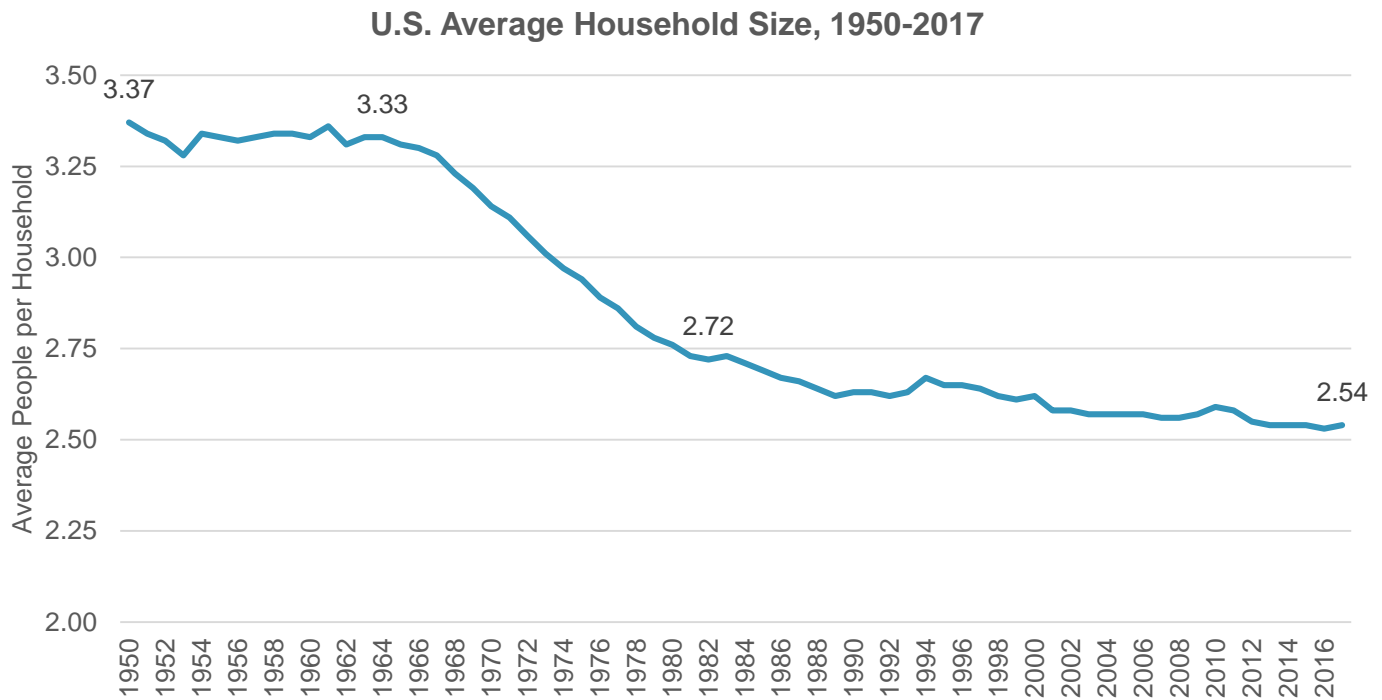
- Walkability
- Proximity to shops and restaurants
- Low-maintenance living that trades square footage and yard for off-site amenities
- Urban lifestyle without having to live in a big building or give up your own front door
- Charming scale and design

Diagram by the author.

¹ LaRue and Healy, 2016.

Shrinking Average Household Size

The size of the average U.S. household has declined significantly the mid-20th century. In 1950, the average household had 3.37 people; today, the average is 2.53 people per household. After holding steady between 1950 and 1970, household size declined rapidly during the 1970s and early 1980s. Research traces the decline to two primary causes: a decrease in the households headed by married couples and a decrease in the size of family households, which the Census Bureau defines as households with at least two people related by birth, marriage, or adoption.^{1,2} In other words, this was the era in which American households began to move away from the traditional nuclear family structure. The continued decline in average household size in the decades since represents a continuation of these trends, as well as the graying of America, which has increased the number of small older households.



Graph by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1950-2017.

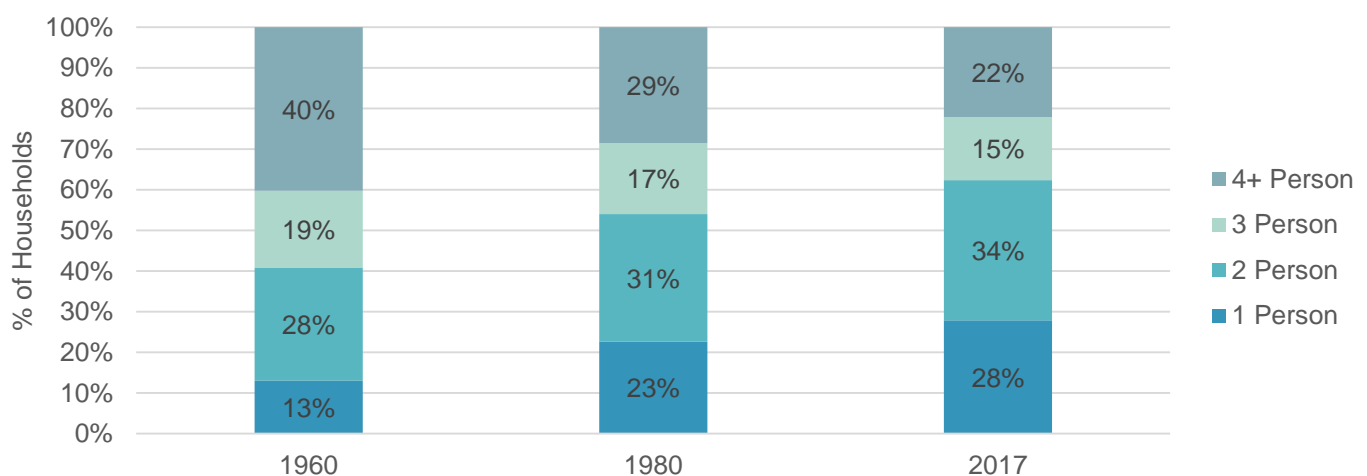
¹ Santi, 1987.

² U.S. Census Bureau. "Current Population Survey: Subject Definitions."

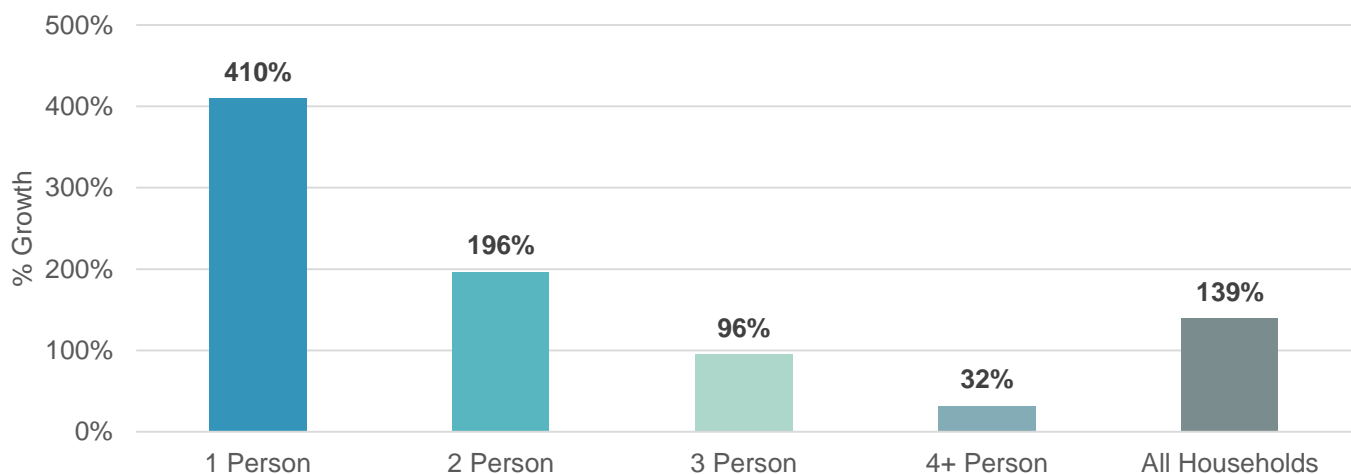
Increase in One- and Two-Person Households

The decline in household size has manifested itself as an increase in one- and two-person households. Whereas 59% of U.S. households in 1960 had three or more people, today that proportion is flipped: 62% of households in 2017 have only one or two people. In absolute terms, the number of one-person households has increased by over 400%, and the number of two-person households is up nearly 200%. By comparison, there are only one-third more households with four or more people today than there were in 1960. The implication for housing is that these smaller households require less living space per household.

Percent Distribution of U.S. Households by Size, 1960-2017



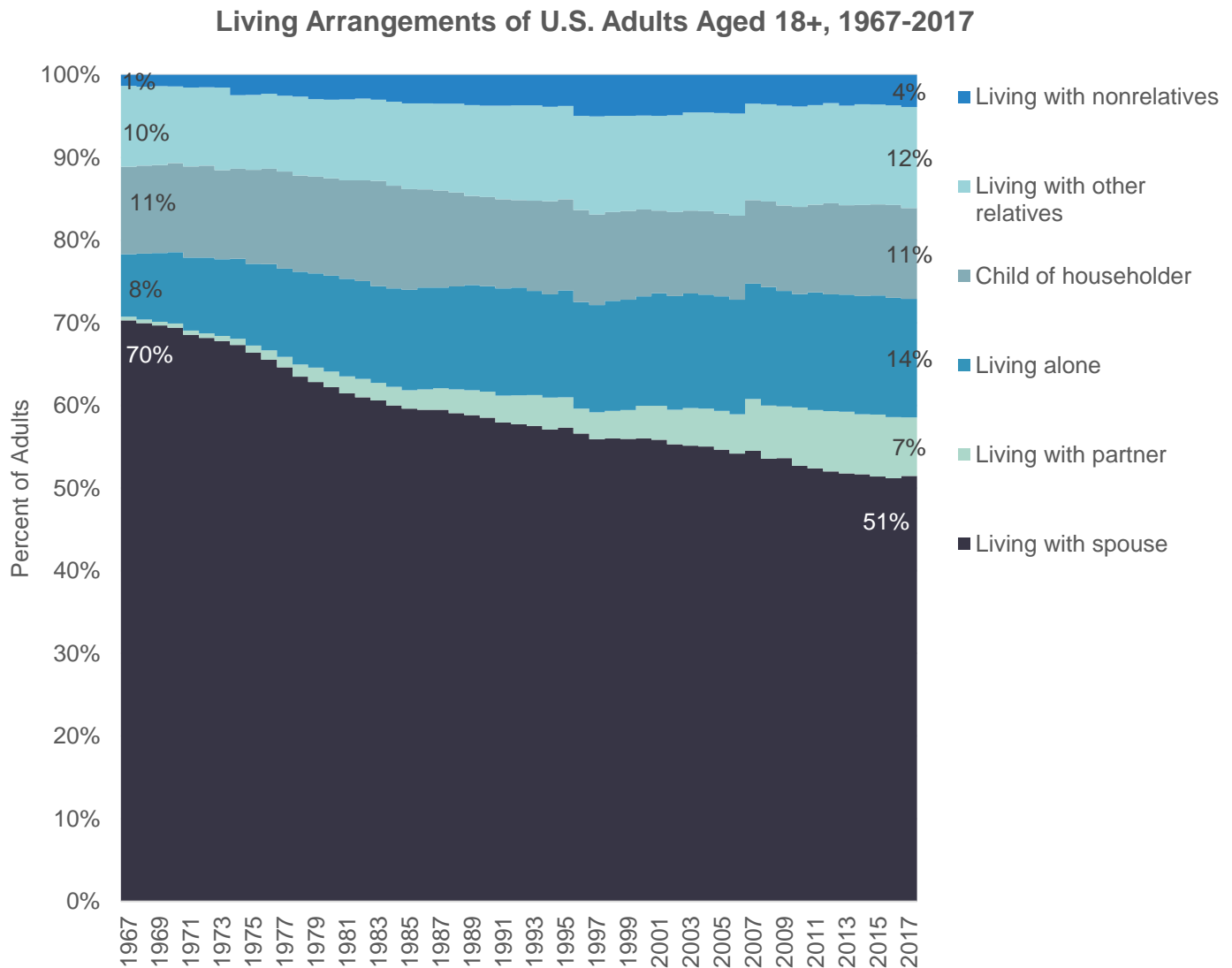
Household Growth by Household Size, 1960-2017



Graphs by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1960-2017.

Diversification of Living Situation

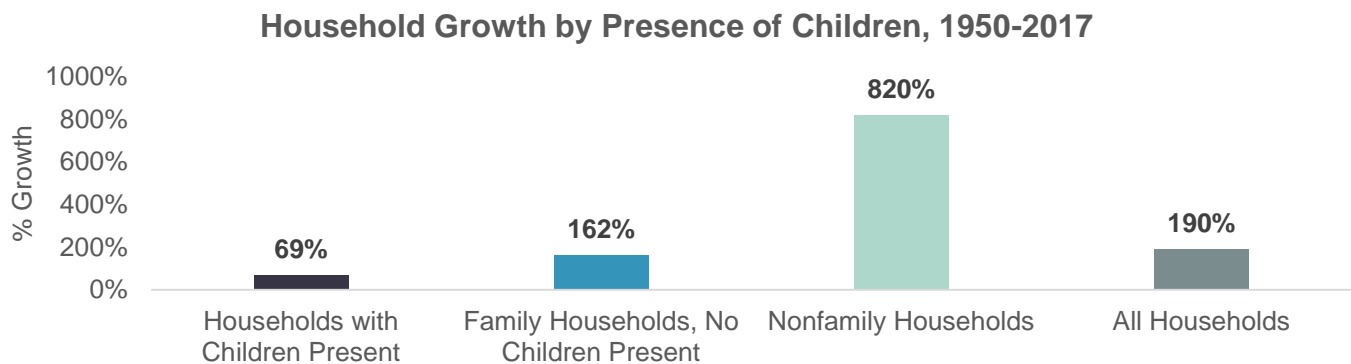
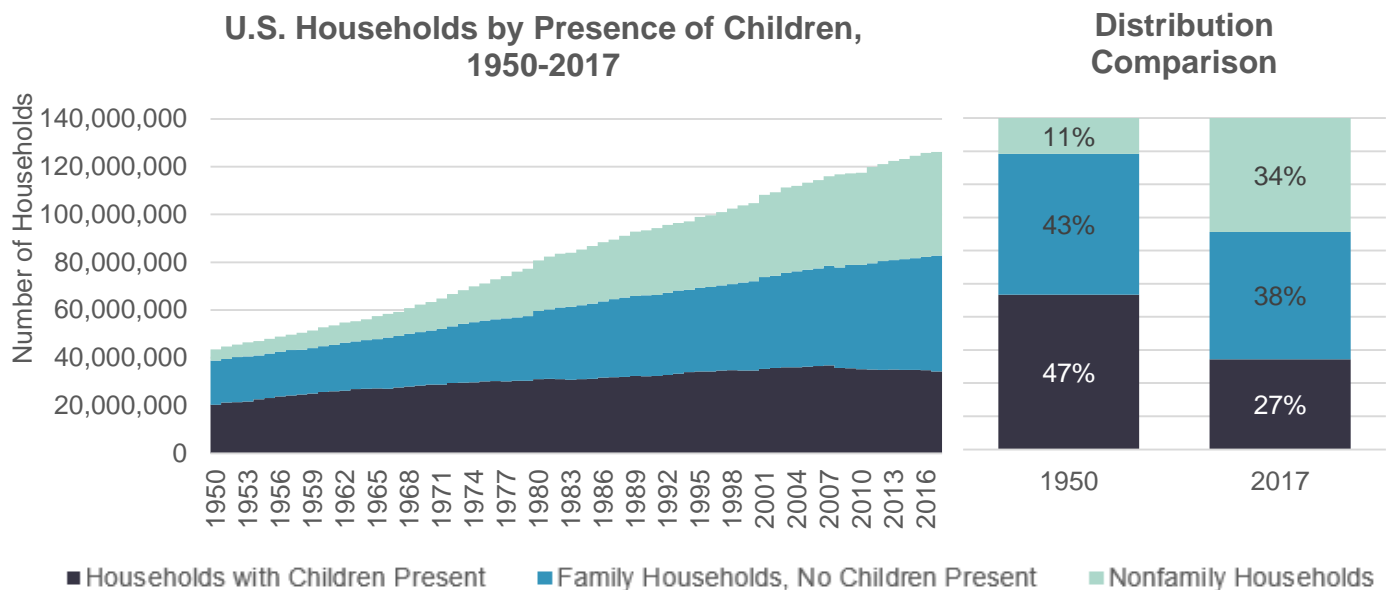
As households have become smaller, living situations have also diversified. In 1967 (the earliest year for which data is available), 70% of adults lived with a spouse; today, only 51% of adults live with a spouse. As a result, nearly half of adults are living in “non-traditional” living situations today. This may impact demand for the layout of living space within a housing unit, in addition to the amount of space demanded.



Graph by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1967-2017.

Relatively Few Households with Children

You'd be forgiven for thinking that households with children are the norm in the United States—after all, these households are the topic of much marketing, policy, and other attention, especially in the housing market. However, even in 1950, more households did *not* have children (i.e., persons under age 18) living at home than did. In the years since, the prevalence of households with children at home has only become less common. Households with children at home decreased from 47% of total households in 1950 to only 27% of households in 2017. In absolute terms, the number of households with children at home has been stagnant since the 1990s; there are as many households with children today as there were in 1995. Additionally, nonfamily households, such as roommate arrangements or unmarried couples who live together, now represent one-third of households, up from only 11% in 1950. The shift away from households with children means that school quality and other children-focused amenities likely drive fewer housing location decisions today.

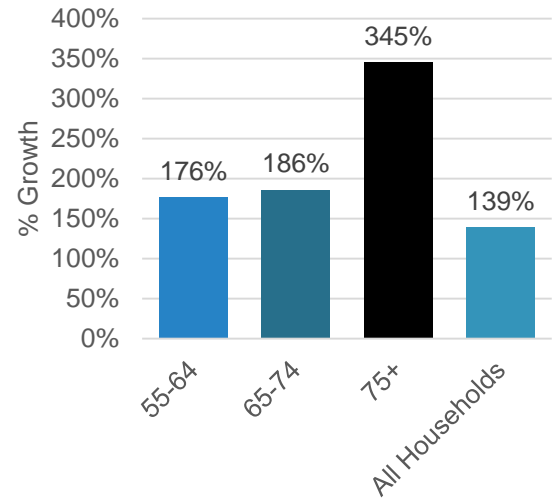


Graphs by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1950-2017.

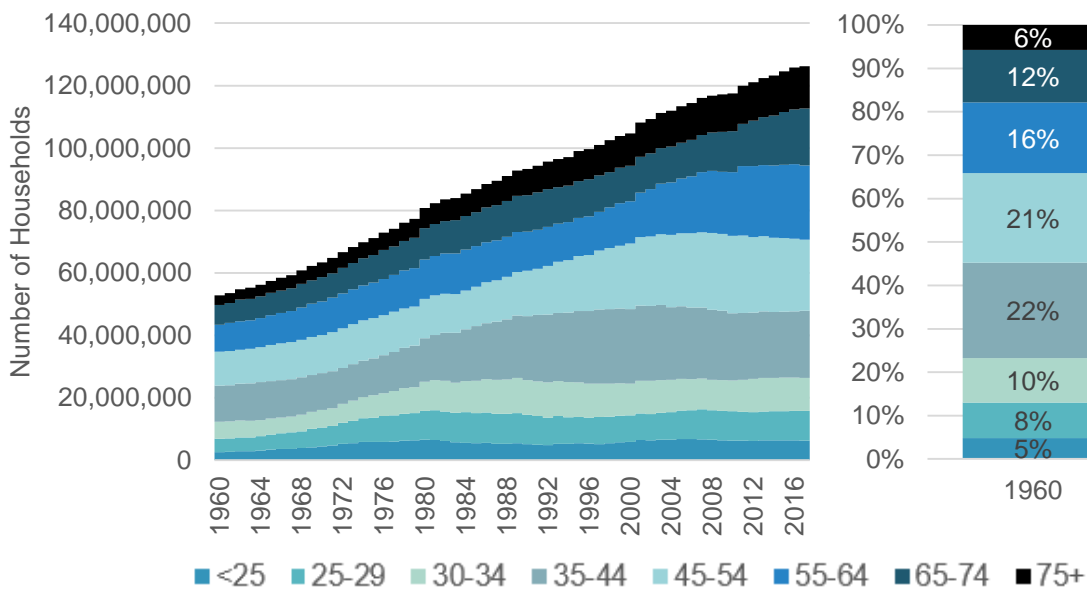
An Aging Population

It is popular knowledge that American households are getting older, due both to longer life expectancy and the aging of the Baby Boomer generation, whose oldest members started turning 65 in 2011.^{1,2} Still, the longitudinal data on household age is striking. The United States has 37.5 million more households age 55 and older today than it did in 1960. Collectively, these households account for 44% of U.S. households today, up from 34% in 1950. The number of households age 75 and up has increased by 345% over the same time period, and households age 55-74 have increased by nearly 200%. Some researchers refer to this shift as the “silver tsunami.”³ This trend is not only about scale, though; even the nature of aging itself is changing. Anthropologist Mary Catherine Bateson goes so far as to consider age 65 the start of a new lifestage she calls “Adulthood II.”⁴ In her words, “Today’s 65-year-olds are starting new careers, or continuing old ones, traveling around the world, and eloping with new loves.” This is impacting their housing and location preferences, which tend to mirror Millennials’ preferences for walkability and neighborhood amenities, for example.⁵

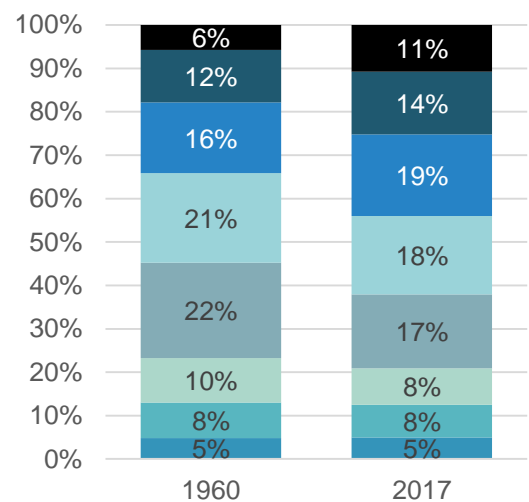
U.S. Household Growth by Age of Householder, 1960-2017



U.S. Households by Age, 1960-2017



Distribution Comparison



Graphs by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1960-2017.

¹ McIlwain, 2012.

² Colby and Ortman, 2014.

³ McClelland, 2014.

⁴ McIlwain, 2012.

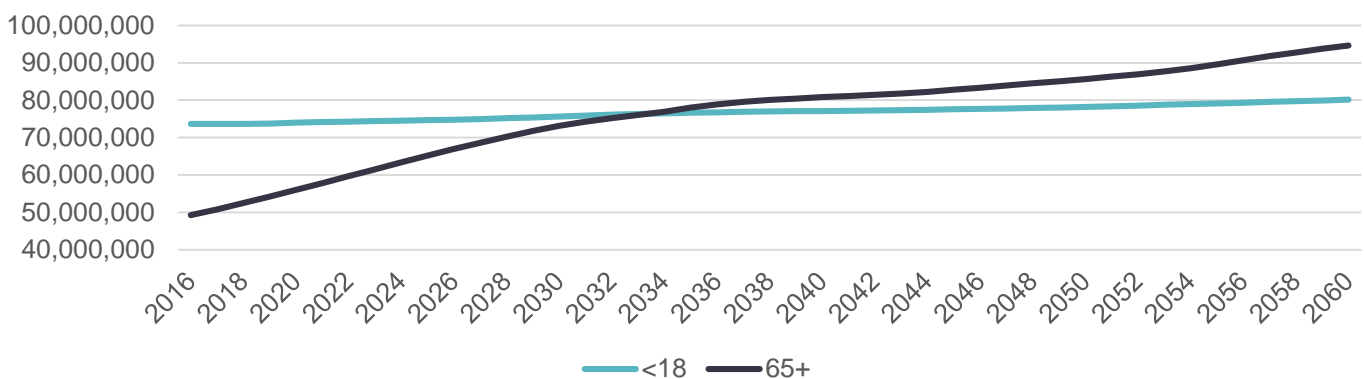
⁵ National Association of Realtors, 2017. “National Community and Transportation Preferences Survey.”

Projected Continuation of Household Size and Age Trends

Based on historical demographic trends discussed in this report, U.S. Census Bureau population projections show only marginal growth in the number of children (persons under 18 years old) in the coming decades, while older adults continue to be the sector of greatest growth. The Census Bureau estimates that there will be 45 million more households age 65+ in 2060 than there are today—a growth of 92% over current levels, four times higher than projected total population growth of 25% during this period.

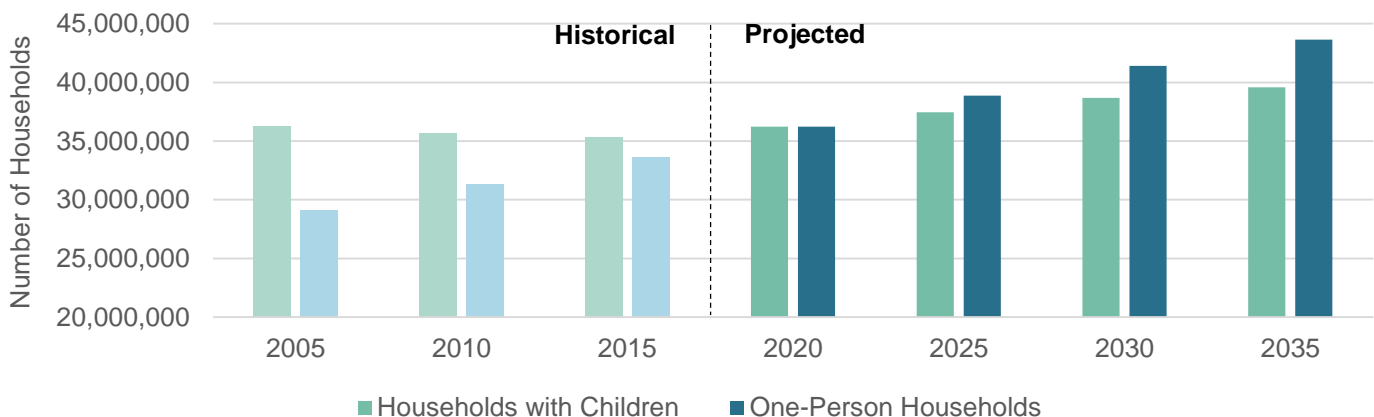
Household projections from the Joint Center for Housing Studies (JCHS) at Harvard University, which are based on the Census Bureau projections, also show current trends continuing. In fact, after decades of declines in households with children at home and decades of increases in single households, JCHS forecasts that these two groups will account for roughly equal numbers of households in 2020. This represents a tipping point, and by 2035, JCHS projects that one-person households will outnumber households with children at home by 4 million. Even if the actual numbers diverge from these forecasts, it is reasonable to assume that the directionality of these forecasts will hold, with the United States becoming a nation of older, smaller households.

U.S. Population Projections for Select Age Groups, 2016-2060



Graph by the author, with data from U.S. Census Bureau, 2017.

JCHS Historical and Projected U.S. Households with Children at Home and One-Person Households, 2005-2035

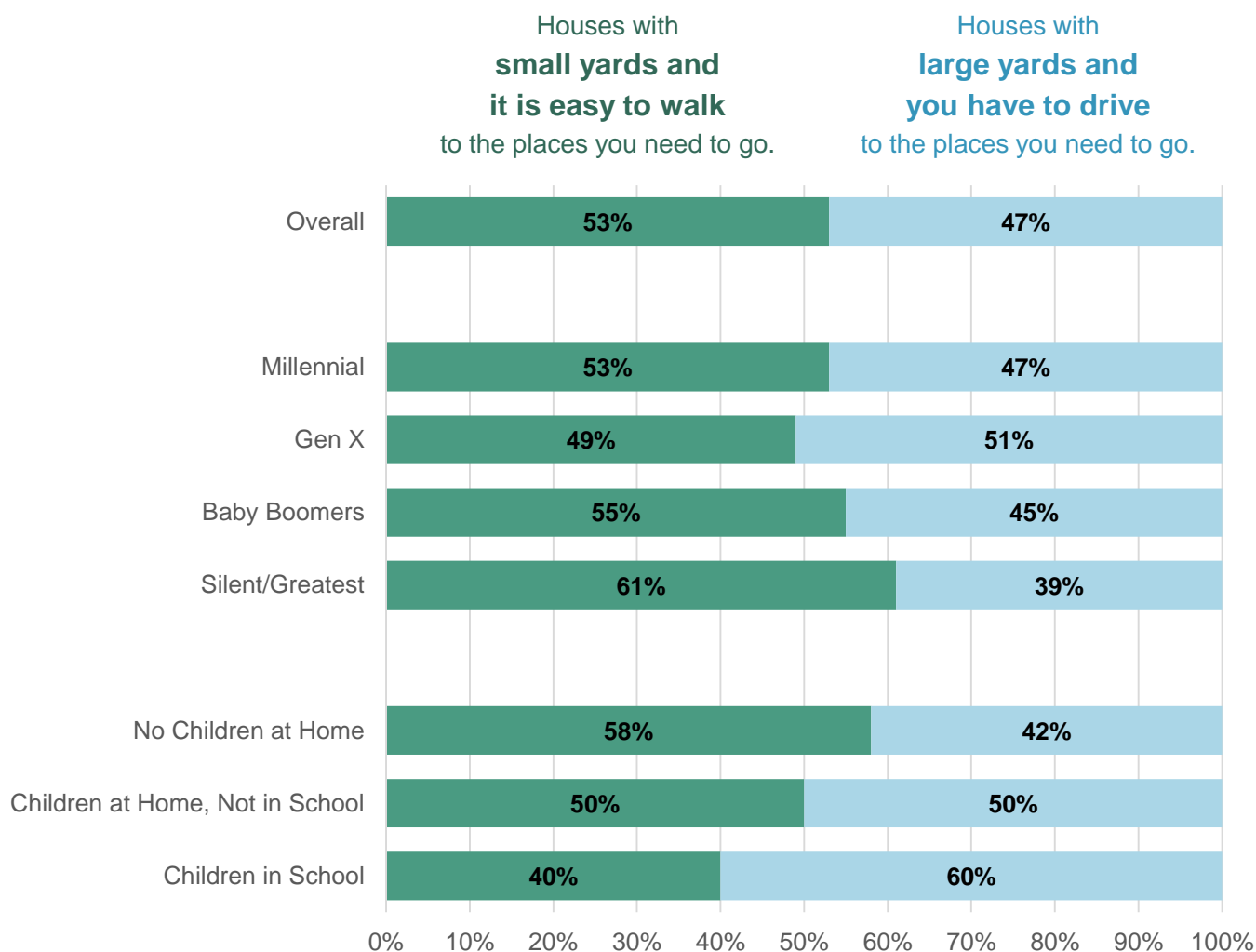


Graph by the author, with data from McCue, Herbert, and Donahue, 2016.

Preference for Walkability

These demographic trends translate into lifestyle preferences that impact housing demand. As shown in the graph below, the most recent preference survey conducted by the National Association of Realtors (NAR) indicates that more than half (53%) of Americans prefer a walkable, small-lot community over a conventional suburban one. This proportion is even higher among high-growth population segments, like households without children and older households. These findings are also supported by Chris Leinberger's research of walkable urban places—what he calls “WalkUPs—which he shows are in such demand that they command substantial real estate premiums over “drive-able suburban” locations.”¹ Middle housing is positioned to respond to this demand because it is typically located in walkable neighborhoods that trade large lots or large yards with proximity to shops, restaurants, transit, and other off-site amenities.²

Results from National Association of Realtors 2017 Community Preference Survey



Graph by the author, with data from National Association of Realtors, 2017. “National Community and Transportation Preferences Survey.”

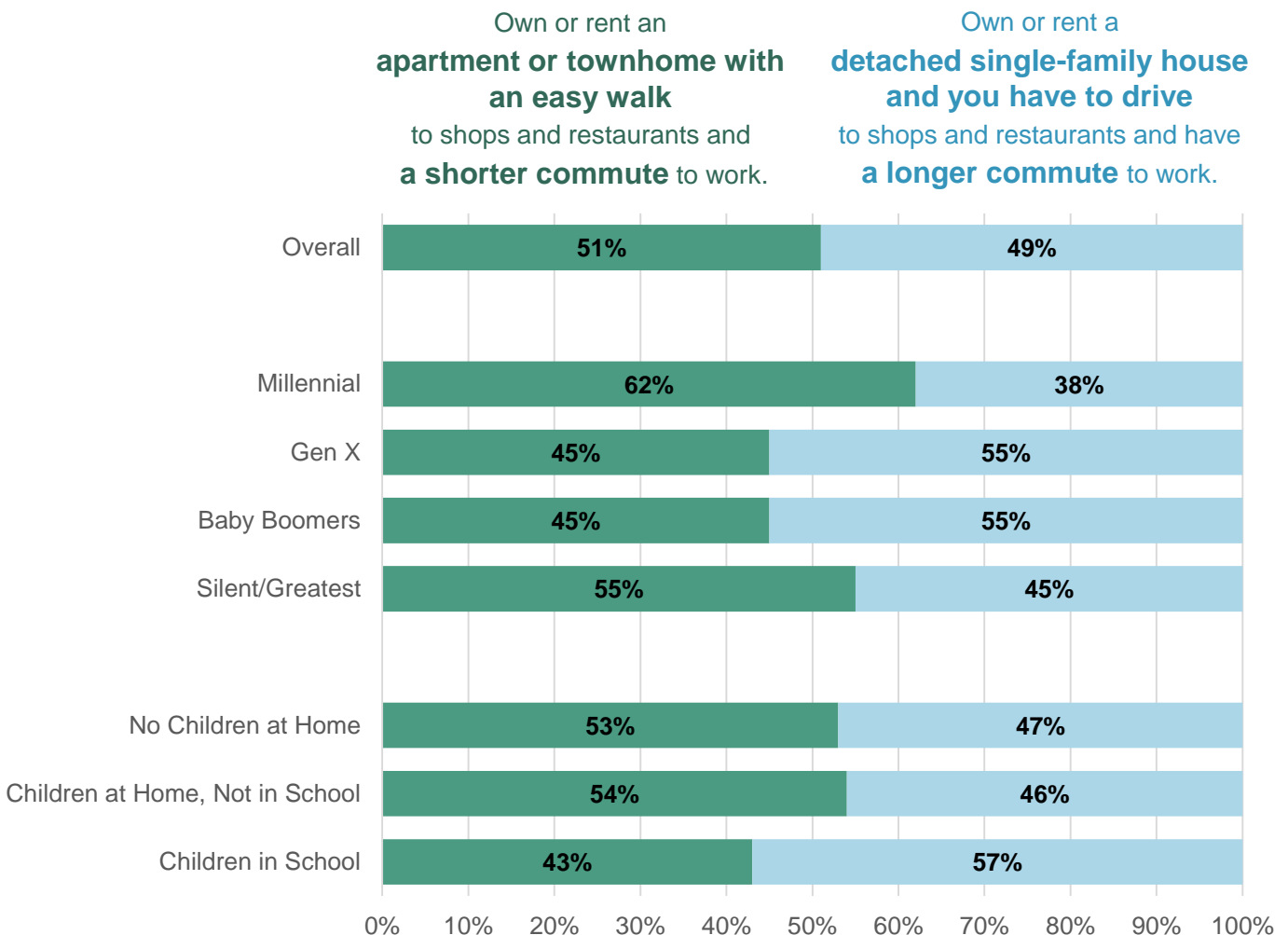
¹ Leinberger and Rodriguez, 2016.

² Opticos Design. “What are the Characteristics of Missing Middle Housing?”

Preferences Split Between Single-Family and Multifamily Housing

NAR survey data also shows that half of Americans would prefer an apartment or townhome to a conventional single-family detached home if living in an apartment or townhome meant they could walk to shops and had a shorter commute to work. As a middle housing report by RCLCO notes, “the higher density of attached housing is, of course, not what attracts many consumers—it is what they potentially get with that density, i.e., a more attainable price; shorter commute with better proximity to shopping, services, and jobs; shared open spaces; a more walkable neighborhood; lower maintenance; and, in some case, lower transportation costs.”¹ We can infer that this preference will continue to grow, as the NAR data indicates the preference for multifamily is more popular among large and/or high-growth demographic groups, including older households and households without children at home. This aligns with research previously conducted by Arthur “Chris” Nelson, who concluded in 2013 that the U.S. already has more than enough single-family detached homes to meet all future demand.²

Results from National Association of Realtors 2017 Community Preference Survey



Graph by the author, with data from National Association of Realtors, 2017. “National Community and Transportation Preferences Survey.”

¹ Logan and Zollinger, 2019.

² Nelson, 2013.

Half of Boomers Want to Downsize

A 2013 survey by the Demand Institute found that 37% of Baby Boomers planned to move from their current home at some point in the future.¹ This may not sound like much, but consider that there are approximately 75 million Baby Boomers in the U.S.² Of this group of Boomers that plan to move, the survey found that over half plan to downsize, or approximately 15 million people. Based on the size of their current homes, at least half will be looking for homes that are under 2,000 square feet, which is well in the range of middle housing. As shown in the infographic below, these prospective downsizing households have high incomes and large homes relative to the Baby Boomer cohort overall.

**15
million**

**Baby Boomers plan to
downsize**

Characteristics of Baby Boomers who Want to Downsize

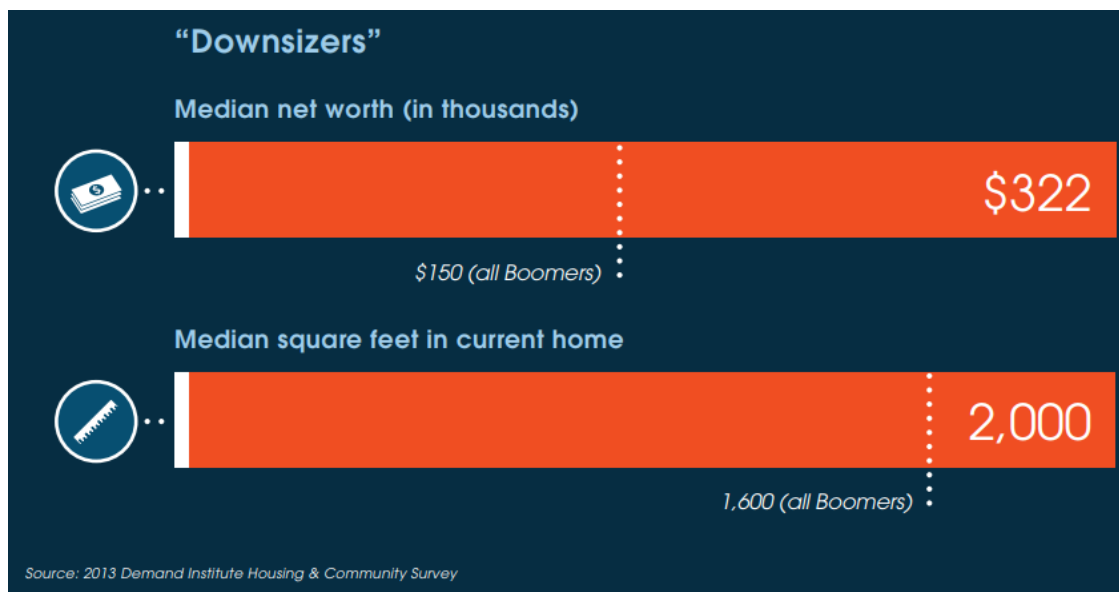


Image source: Demand Institute, 2014.

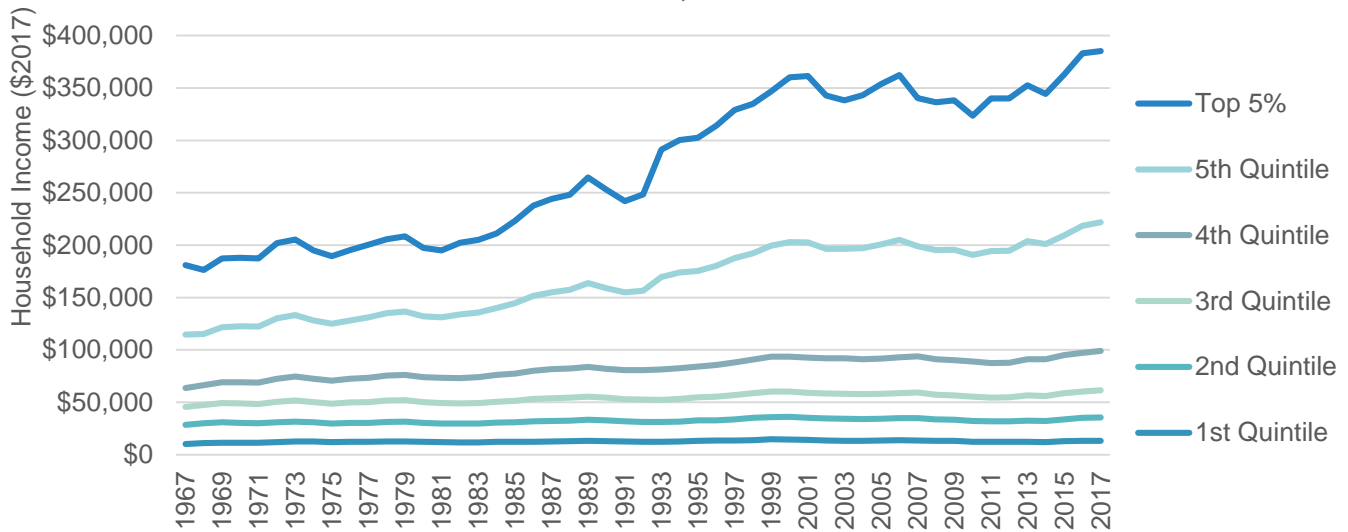
¹ Demand Institute, 2014.

² Fry, 2018.

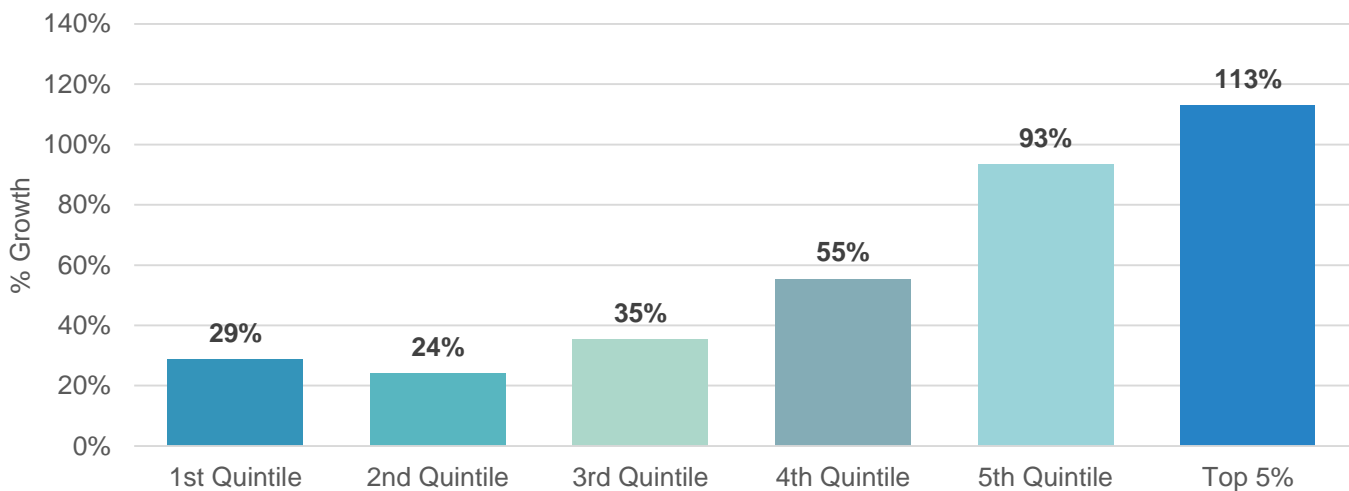
Sluggish Income Growth for Most

Economic trends also govern housing demand by determining the depth of market for housing at different price points. In contrast to the dramatic demographic changes that have occurred over the past 50+ years, real income growth has been modest for all but the wealthiest Americans. The bottom 60% of American households saw real average incomes increase by roughly 30% between 1967 and 2017. Incomes for the top 5% of American households, by contrast, grew by 113%.

Mean Household Income (\$2017) for Each Quintile and Top 5% of all U.S. Households, 1967-2017



Growth in Real Household Income by Quintile, 1967-2017

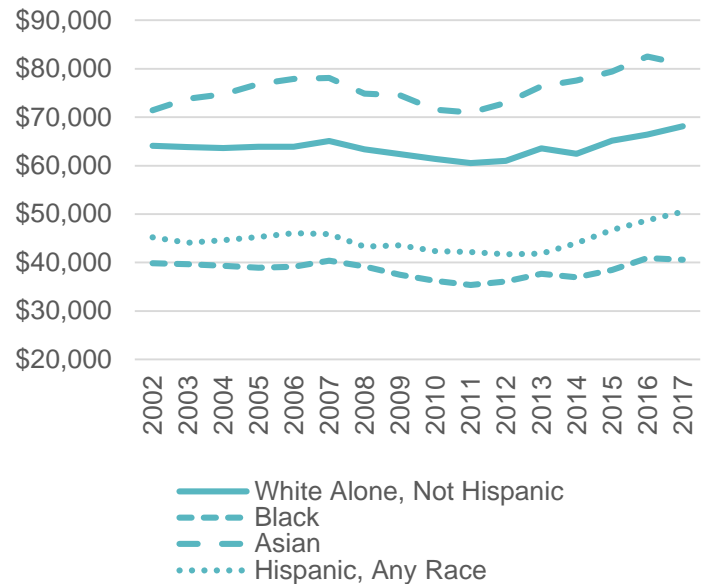


Graphs by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1967-2017.

Growing Income Inequality

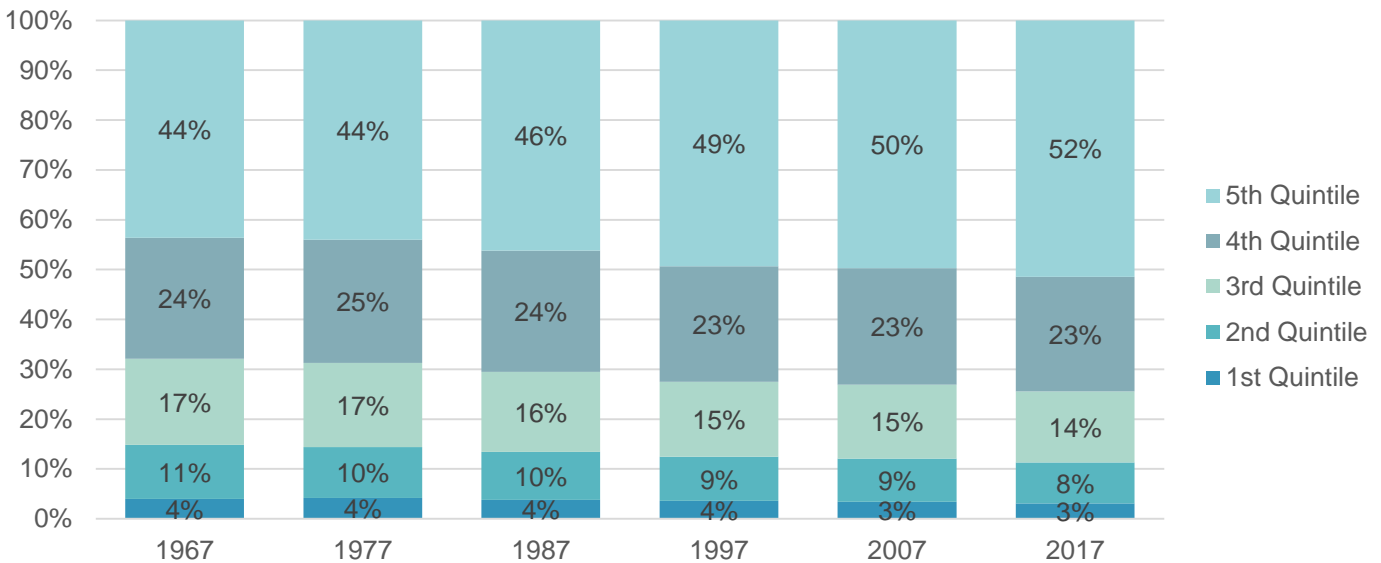
Income inequality is worsening. Due to modest income growth for all but the highest-earning households, the top 20% of households now account for 52% of the aggregate income in the United States, as compared to 44% in 1967. Meanwhile, each of the other income quintiles declined in its share of the aggregate income. Significant and persistent racial inequities in household income compound the problem. Even in 2017, the median household income of black households is 60% of white households, for example. Given that housing construction occurs to satisfy growth, and the fact that most growth has accrued to the upper tiers of society, we see why the housing market has moved up-market in tandem with larger social inequalities. Meanwhile, a survey by the Urban Land Institute shows that low-income and minority Americans are more likely be dissatisfied with their current housing options.¹

U.S. Median Household Income (\$2017) by Race, 2002-2017



Graph by the author, with data from the U.S. Census Bureau, Historical Income Tables: Households. Table H-5.

U.S. Aggregate Income by Quintile, 1967-2017

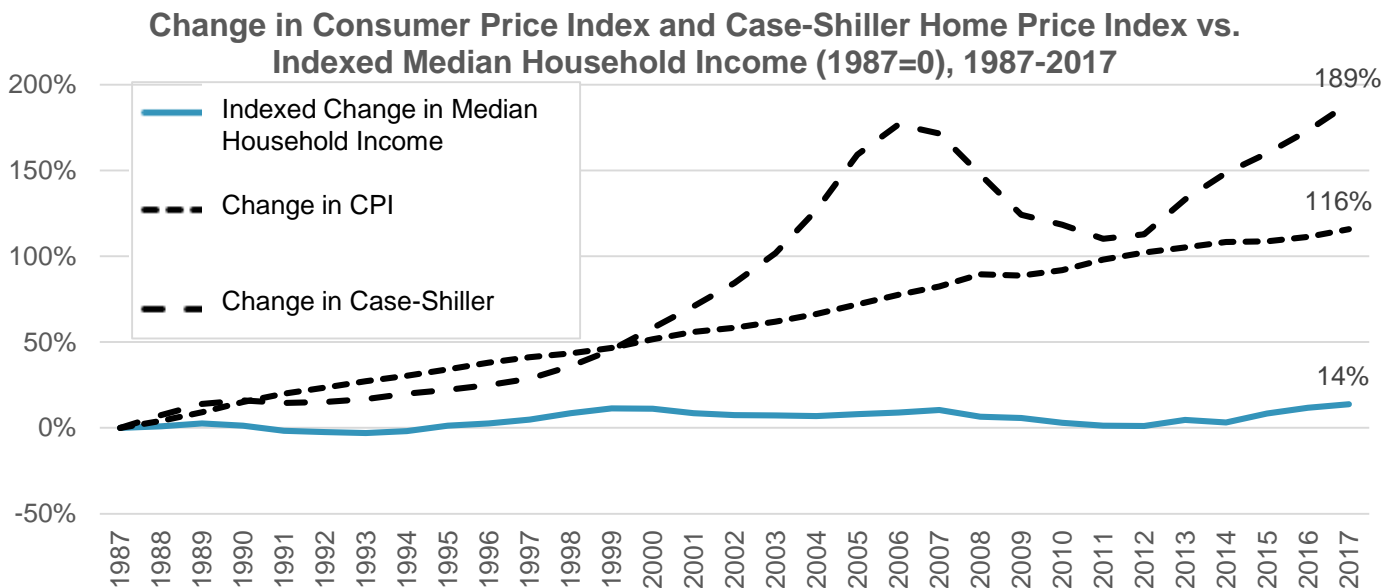
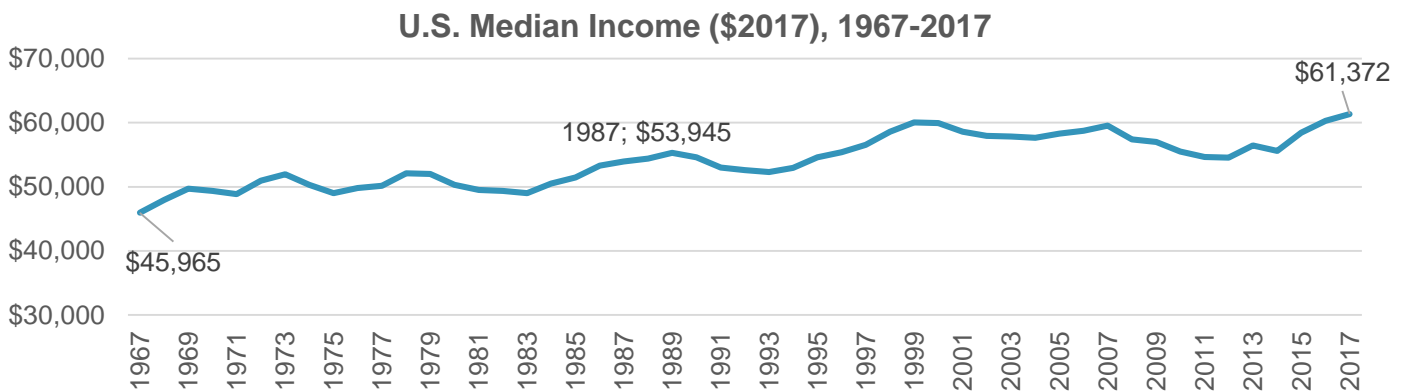


Graph by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1967-2017.

¹ Urban Land Institute, 2015.

Declining Purchasing Power

Real median household incomes have stagnated, with current median household income on par with 1999 levels. This has reduced household purchasing power, particularly with respect to housing. Since 1987 (the earliest data available), the Case-Schiller National Home Price Index is up 189%, even accounting for declines during the Great Recession. By comparison, real median income only grew 14% over the same period. As a result, households today spend more of their income on housing, making it less affordable. A lack of affordable homes was the number one barrier to home purchase in a national survey of recent first-time buyers that was conducted by consulting firm RCLCO.¹ Additionally, research by the National Association of Realtors found that 87% of renters wanted to own a home in the future, but 55% cited affordability as the primary reason for not owning already.²



Graphs by the author, with data from the U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1967-2017; Federal Reserve Bank of St. Louis; and Federal Reserve Bank of Minneapolis.

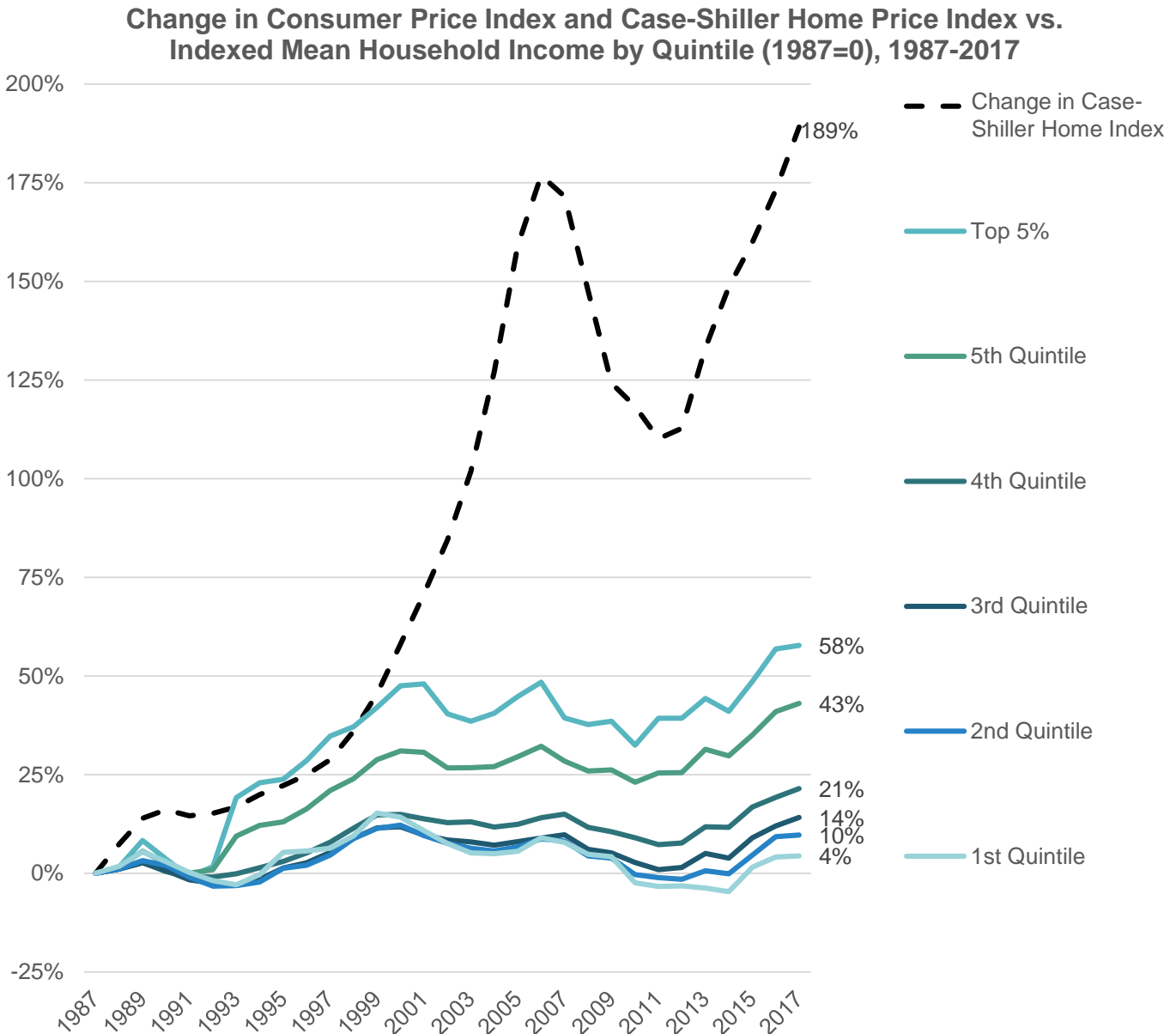
¹ LaRue and Healy, 2016.

² National Association of Realtors, 2017. "Aspiring Home Buyers Profile."

Note: The Case-Schiller National Home Price Index is a repeat-sales home price index that reflects how national same-home pricing changes over time.

Even Higher-Income Households Spending More on Housing

Breaking income down by quintile, reveals that even incomes for the highest-income households have grown more slowly than the home price index. This means that even high-income households are paying relatively more of their income for housing today than they have historically. Of course, it also means that the lowest-income households where income growth has been most stagnant are disproportionately burdened by increasing home prices.



Graph by the author, with data from the U.S. Census Bureau, Historical Income Tables: Households, Table H-3; Federal Reserve Bank of St. Louis; and Federal Reserve Bank of Minneapolis.

Households Also Strapped by Non-Housing Costs

Two other household costs that are particularly related to housing affordability are transportation expenses and student loan debt.

Transportation

AAA reports that the national average cost to own and operate a car is nearly \$8,500 per year, assuming 15,000 miles driven annually.¹ Costs are even higher for households that travel more, with the average cost jumping to \$9,900 for vehicles driven 20,000 miles per year. The ability to live in a location that allows a household to drive less or even live car-free, therefore, has significant bearing on household finances. The Center for Neighborhood Technology created a Housing + Transportation Affordability Index to capture both of these place-based costs of living, not just housing. It found that only 26% of U.S. neighborhoods are truly affordable when both of these costs are taken into account.² This points to demand for affordable infill development and densification near transit.

Student Debt

Research has shown that rising student loan debt, particularly relative to stagnant income growth, is also hobbling the conventional buyer-oriented, single-family market. Specifically, it is impeding young households' ability to save for a down payment.³ As the chart below illustrates, households are already struggling to make rent, let alone save for a future home. This is manifesting in lower first-time buyer activity. In 2018, first-time home buyers comprised only 33% of all buyers, compared to the 1980-2018 long-run average of 40%.⁴

Income and Rent Affordability and the Impact of Student Debt

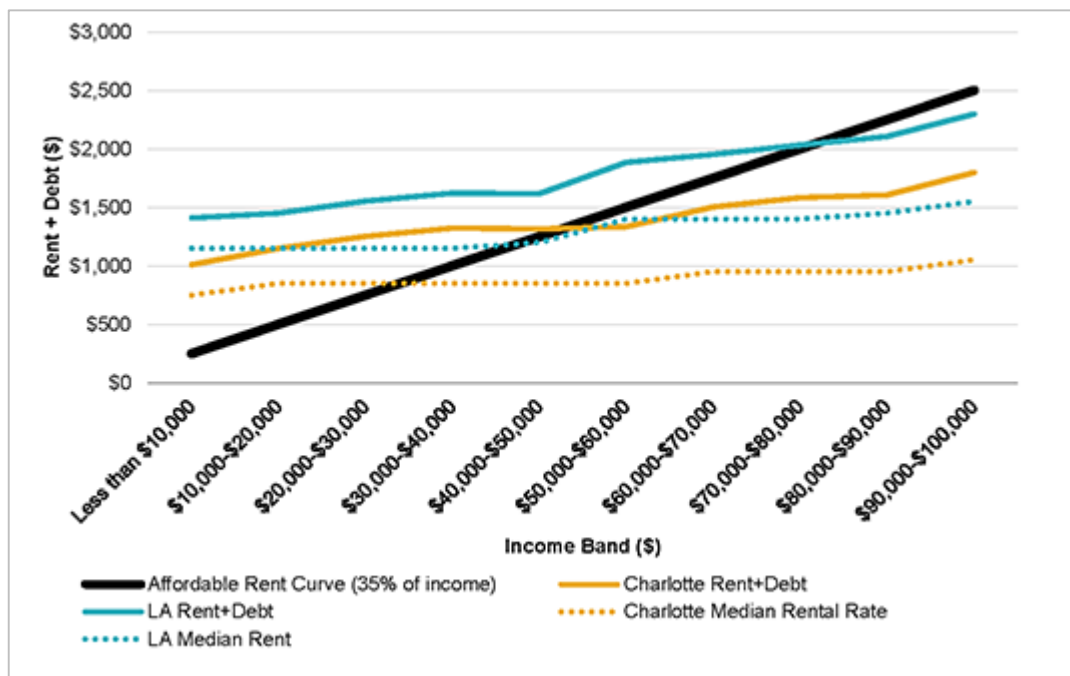


Image source: Smith, 2016.

¹ AAA, 2017.

² Center for Neighborhood Technology.

³ National Association of Realtors, 2018.

⁴ Ibid.

Willingness to Trade Space for Affordability or Amenities

Because of the rapid pace of housing price increases, especially homes in high-demand, amenity-rich locations, households are making tradeoffs, such as living in less preferred locations and/or delaying (or forgoing) homeownership. Middle housing may be a middle pathway. As shown in the chart below, a survey by the national Association of Homebuilders (NAHB) finds increasing willingness among consumers to trade home price and lot size for greater affordability. Additionally, another NAHB survey found that “buyers overwhelmingly [a two-thirds margin] prefer a smaller house with more features and amenities over sheer size,” regardless of income.¹

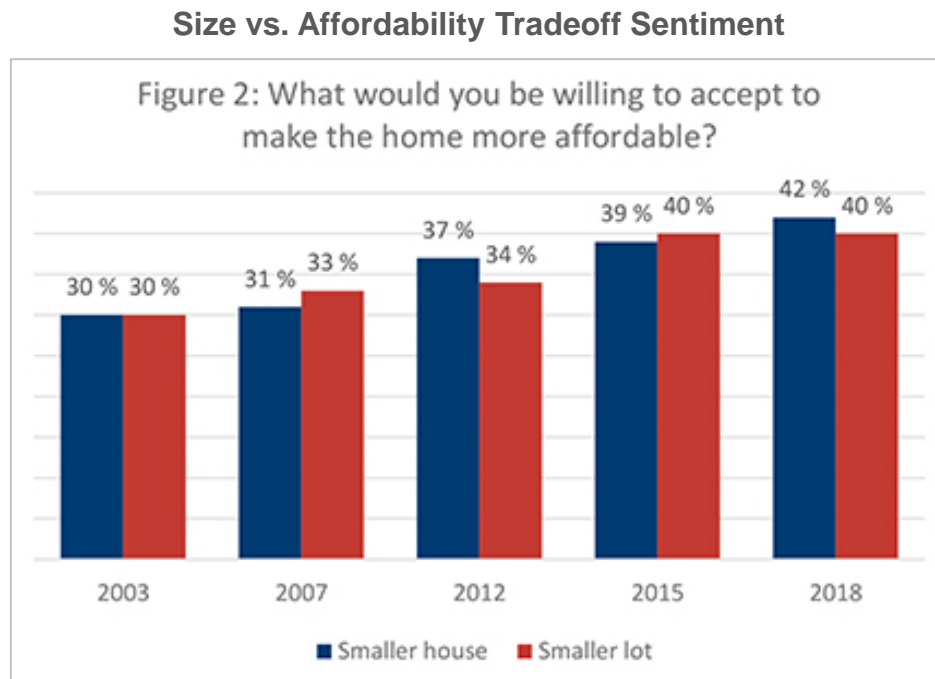


Image source: Brady, 2018.

¹ National Association of Home Builders, 2017.

3. Middle Housing Supply-Demand Mismatch

Overview of Middle Housing Supply-Demand Mismatch

National demographics are not the same as 50 years ago, or even 20 years ago, but long-term construction trends show little change in the types of homes that are being built. Multifamily construction has newly rebounded since the Great Recession, but it is concentrated among large multifamily properties, not the middle. The effect is to create an increasingly barbell-shaped housing stock that is bifurcated between detached single-family units and large apartment and condo buildings. Data suggests the existing mismatch already numbers into the millions of units and will only grow as long-term economic and demographic trends continue unless middle housing production increases.

The New Housing Supply Barbell

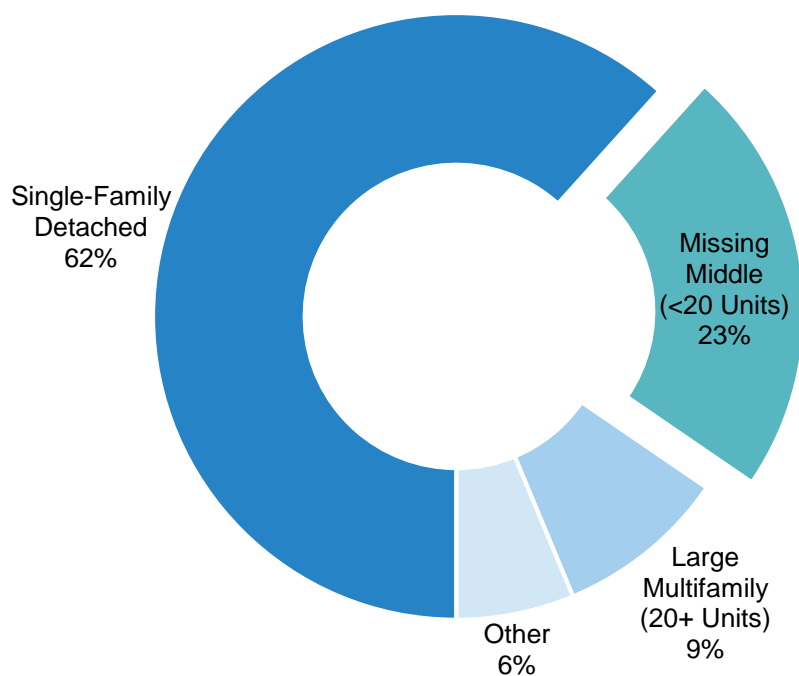


Graphic by the author. Housing image source: Opticos Design. "What is Missing Middle Housing?"

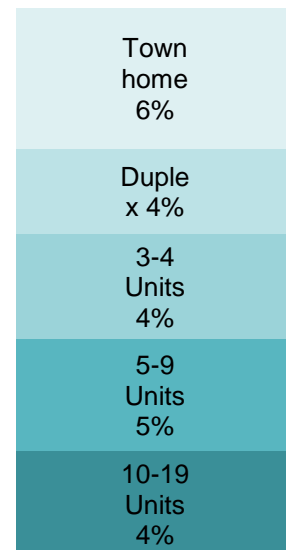
Profile of Current Housing Stock

At 23% of the nation's total housing stock, middle housing still makes up the largest share of the nation's current multifamily inventory. This suggests that middle housing units are a significant component of the current housing supply. Indeed, they are, but this is not a complete picture of middle housing supply in the United States; only when viewed relative to demand and long-term construction trends do we see how missing middle has become increasingly scarce.

Housing Stock by Product Type, 2017



Missing Middle Detail

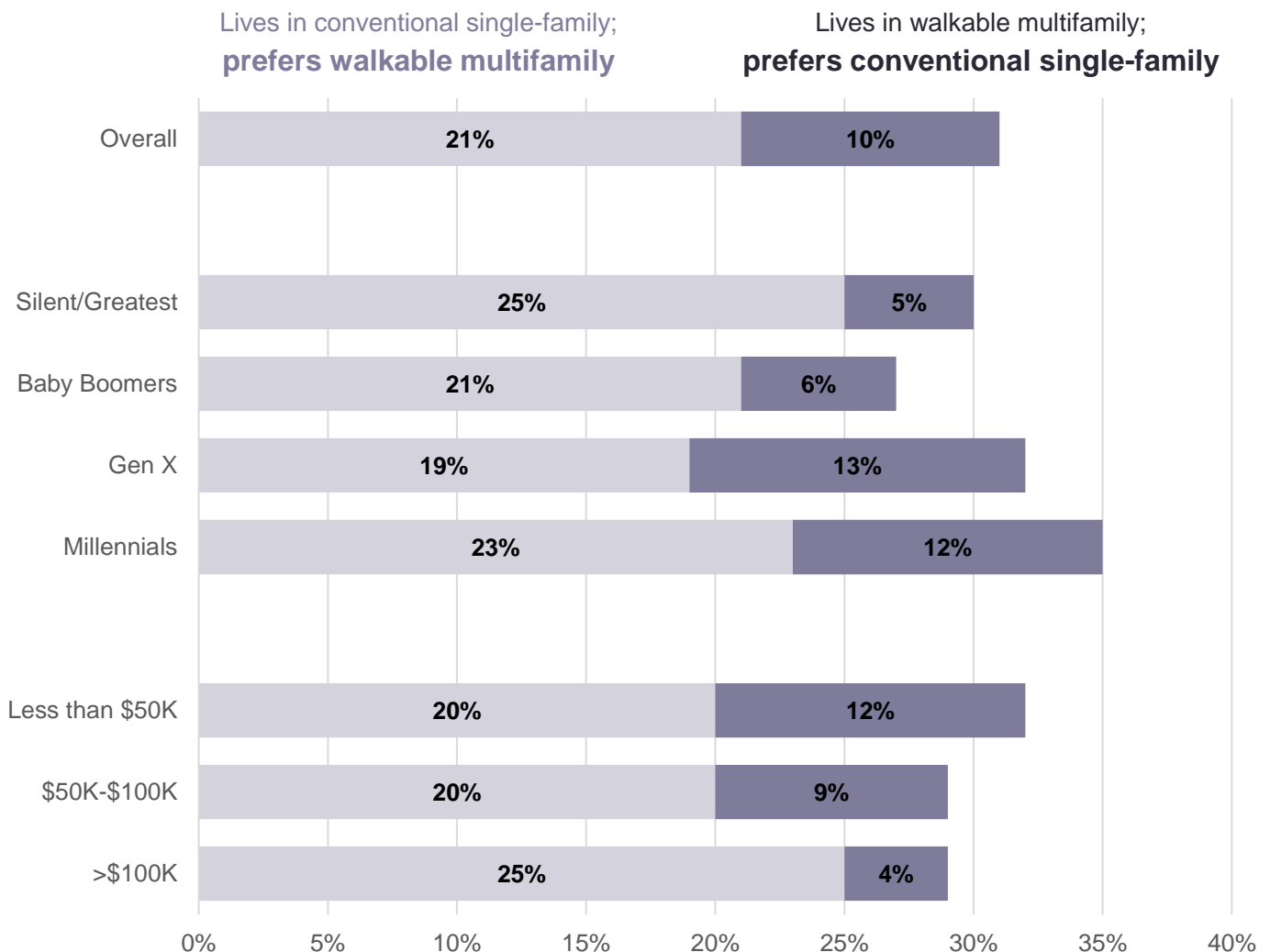


Graph by the author, with data from the U.S. Census Bureau, American Community Survey 1-Year Estimates, 2017.

Preference-Based Mismatch

Approximately one-third of households surveyed by the National Association of Realtors reported a housing mismatch in which the nature of their existing housing situation did not match their reported preference when given the option between living in an attached or multifamily unit in a walkable neighborhood, or a detached single-family home in a conventional, drive-able neighborhood. Twice as many of respondents reporting a mismatch live in a conventional single-family neighborhood today but would prefer to live in a multifamily unit in a walkable neighborhood if the alternative were available. The mismatch persists across age and income categories, reflecting the way the middle-density market is underserved among both value and lifestyle household segments.

Respondents Reporting a Mismatch between Housing Preference and Current Residence, National Association of Realtors 2017 Community Preference Survey

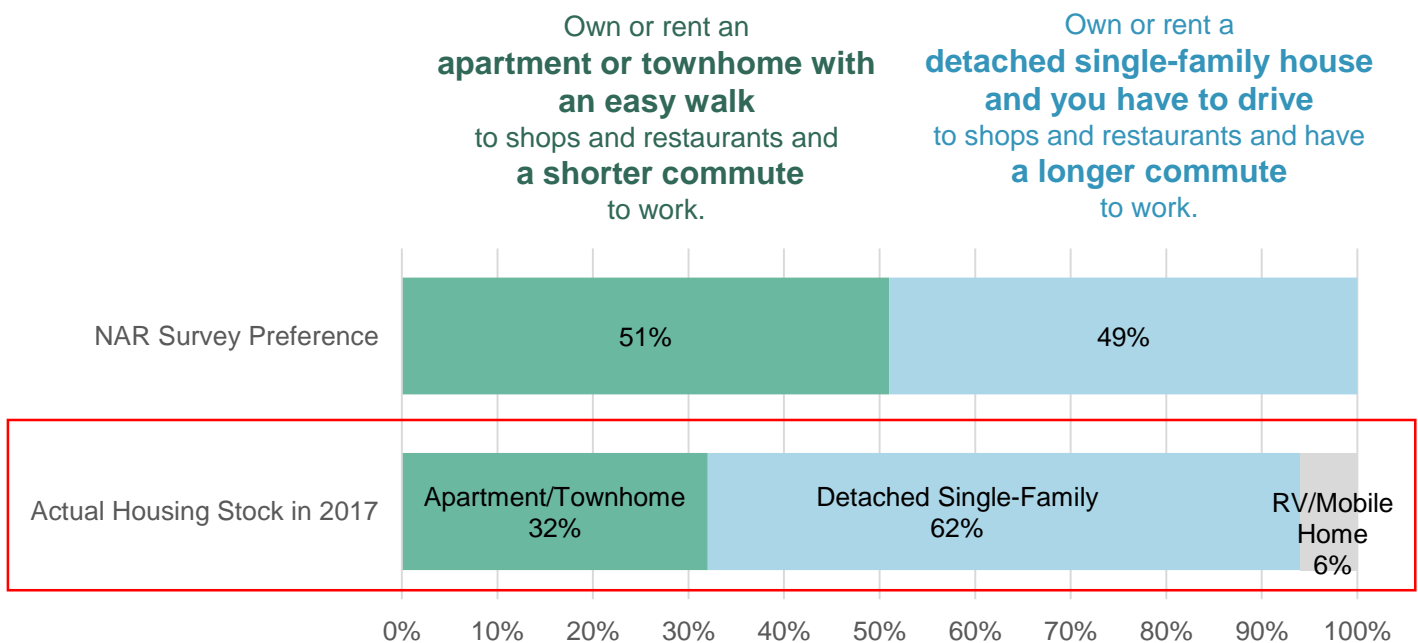


Graph by the author, with data from National Association of Realtors, "National Community and Transportation Preferences Survey," 2017.

Housing Stock Skews Single-Family Relative to Preferences

Single-family homes are overrepresented in the current housing stock. Compare the National Association of Realtors preference data to what is built: while 49% of respondents preferred a single-family home, single-family homes account for 62% of the current housing inventory in the U.S. Extrapolating from the fact that there are over 120 million occupied housing units in the United States today, this 13% discrepancy would suggest the single-family market is oversupplied by *15.6 million units*.¹ What's more, demographics suggest demand for single-family homes, especially conventional suburban ones, will only decline further as households continue to become smaller and older and as housing becomes more expensive. Of course, this is just a rough estimate of the supply-demand mismatch, but it conveys the scale of the problem: this is not a matter of thousands of units or even tens of thousands of units, but *millions* of units.

Comparison between National Association of Realtors 2017 Community Preference Survey and Actual Housing Stock

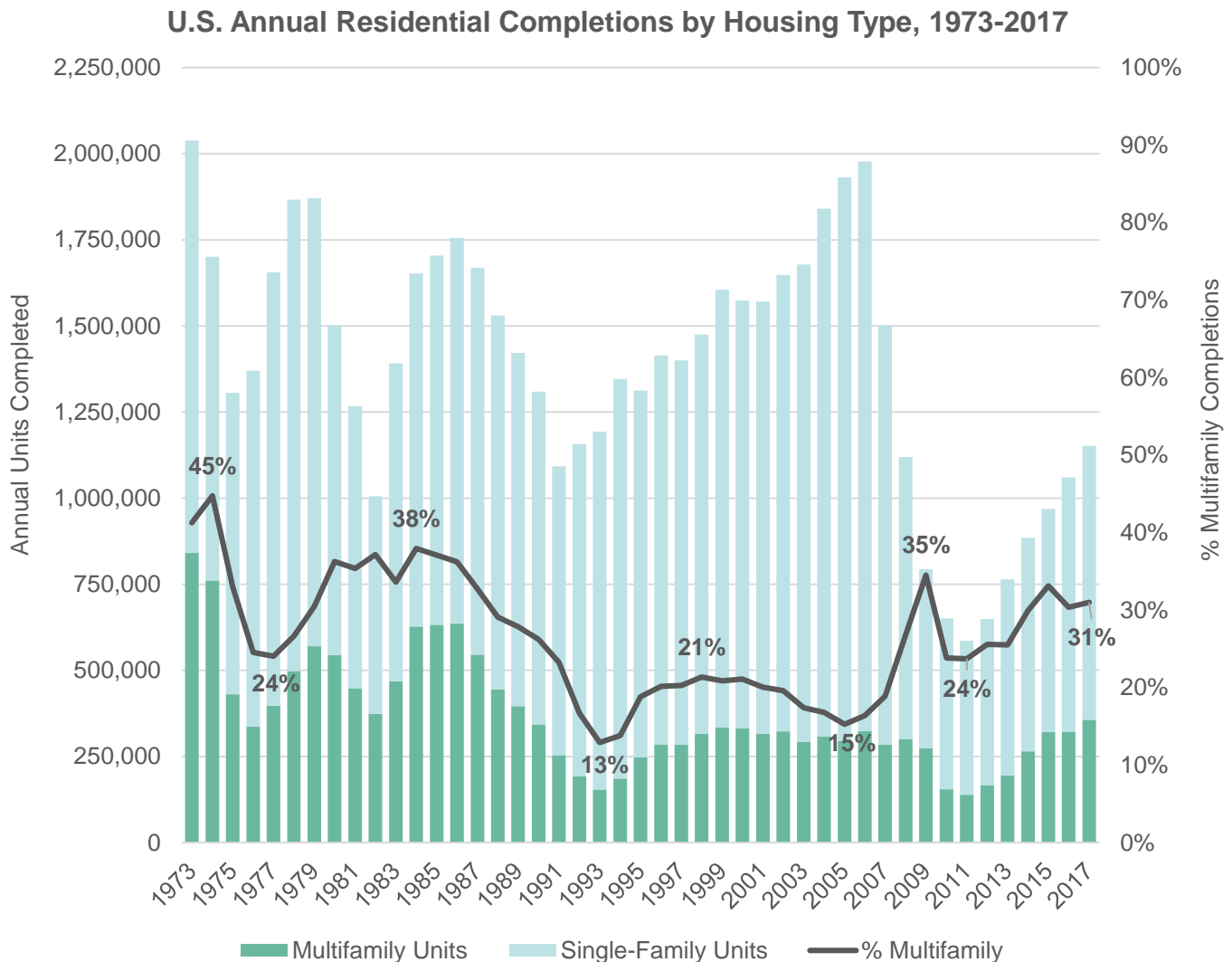


Graph by the author, with data from National Association of Realtors, "National Community and Transportation Preferences Survey," 2017; and U.S. Census Bureau, American Community Survey 1-Year Estimates, 2017.

¹ U.S. Census Bureau, American Community Survey, 2017 1-Year Estimate.

Single-Family Dominates Construction

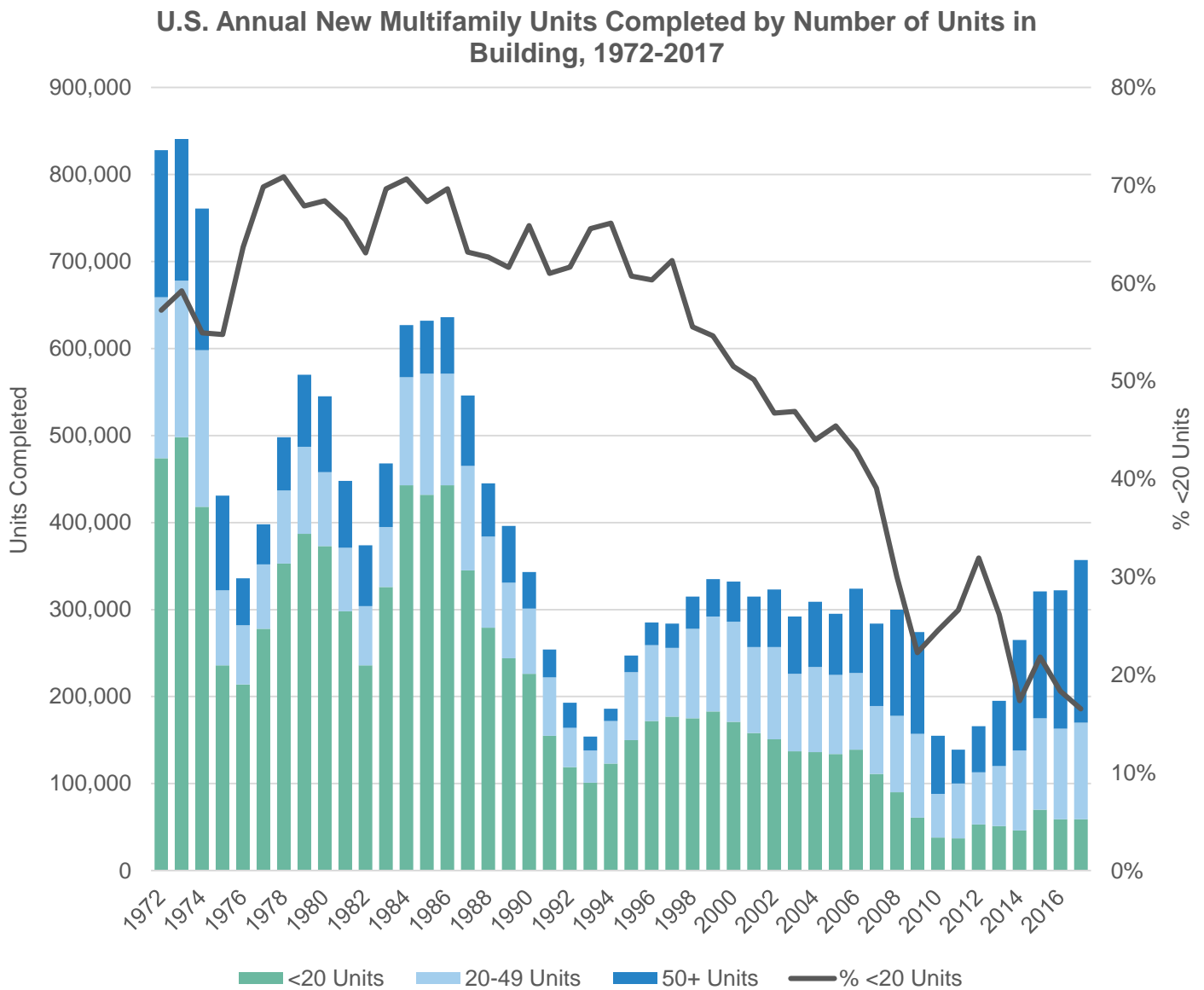
Even taking the cyclical nature of overall housing production into account, there was a clear downward trend in multifamily construction relative to single-family from the 1970s until the Great Recession. While households have been becoming smaller and moving away from the traditional nuclear family, new home construction doubled down on single-family homes. The 2008 recession appears to mark an inflection point, however. Since that time, multifamily has constituted a steadily growing share of annual housing completions, even as single-family completions also recover. This is a sign of a course-correction relative to the single-family versus multifamily housing stock mismatch, but what does it mean for middle housing multifamily specifically?



Graph by the author, with data from U.S. Census Bureau, *Characteristics of New Housing Tables*.

Middle Housing Squeezed Out by Larger Multifamily Properties

Taking a closer look at the composition of multifamily deliveries shows that even as multifamily completions have risen since the Great Recession, middle housing production hit record lows. Middle housing in buildings with less than 20 units was the largest segment of new multifamily construction as recently as the early 1990s, before regulations set by the the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) precipitated a structural decline in all multifamily lending and construction but may have disproportionately impacted middle housing.¹ In the years since, the middle housing share of the multifamily market has declined, from 60% to 70% of the multifamily market previously to only 17% in 2017.

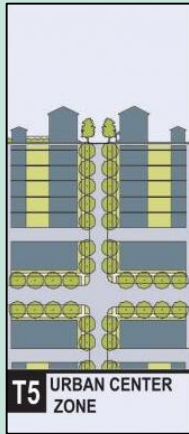



Graph by the author, with data from U.S. Census Bureau, *Characteristics of New Housing Tables*.

¹ DiPasquale and Cummings, 1992.

No Supply Answer for Middle Neighborhoods

While it could be argued that the new large multifamily buildings of late are helping correct the housing stock mismatch and are being built in areas where such density is justified, the fact remains that the range of new housing being built is not compatible with the full range of locations available for development, and it leaves key areas undersupplied—or at worst, recipients of out-of-scale development. In New Urbanist terms, the data shows a weak supply response to housing demand in middle-density (T4 and T5) urban transects. This is important because neighborhoods that roughly correspond to these transects account for roughly 82% of urban land area in the top 50 metros in the United States, according to urban classifications identified in a study by Urban Land Institute (ULI) and RCLCO.¹

New Urbanism Urban Transects	 <p>T4 GENERAL URBAN ZONE</p>	 <p>T5 URBAN CENTER ZONE</p>	 <p>T6 URBAN CORE ZONE</p>
Corresponding ULI Urban Classifications	<p>High-End Neighborhoods: “In-town residential locations with high home values;” “lower density... than other urban places, but more walkable and mixed-use than their upscale suburban counterparts” Example: Virginia-Highland, Atlanta 4% of U.S. urban land area</p> <p>Stable Neighborhoods: “Historically working-class neighborhoods [that] feature diverse housing types” Example: Kirkwood, Atlanta 64% of U.S. urban land area</p> <p>Challenged Neighborhoods: “Predominately residential locations with significantly lower home values” Example: English Avenue, Atlanta 3% of U.S. urban land area</p>	<p>Mixed-Use Districts: “High-density housing and upscale retail... situated near major employment cores but tend to be more residentially focused” Example: West Midtown, Atlanta 10% of U.S. urban land area</p>	<p>Economic Centers: “Significant concentrations of employment and are often the historic urban cores of the cities in which they are located” Example: Downtown Atlanta 7% of U.S. urban land area</p> <p>Emerging Economic Centers: “Once characterized by single-family residential or low-density commercial land uses, these locations are rapidly emerging as new urban cores” Example: Sandy Springs, GA 11% of U.S. urban land area</p>

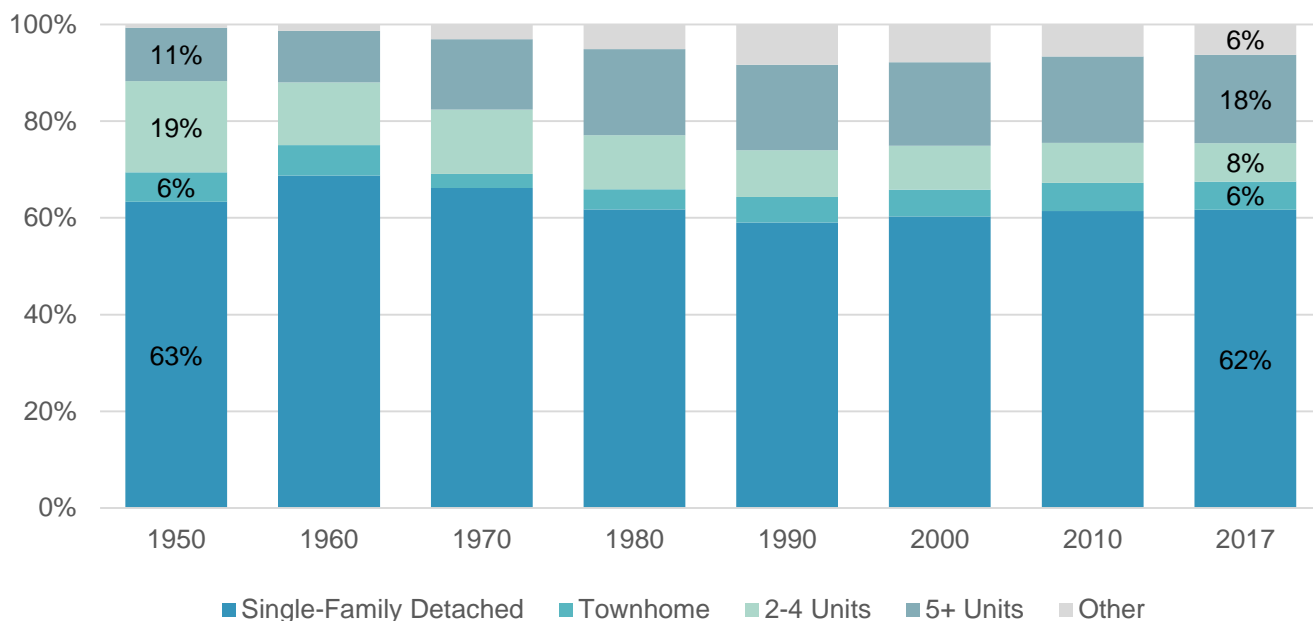
Transect images source: Center for Applied Transect Studies.

¹ Urban Land Institute, 2018.

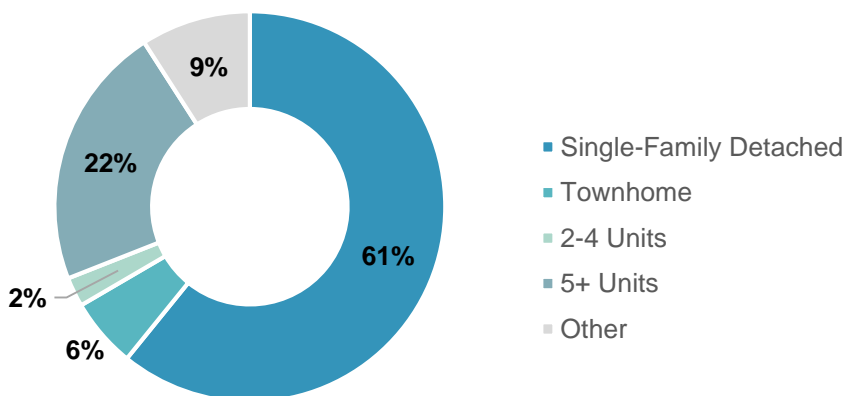
Declining Middle Housing Market Share

Because middle housing represents a smaller share of new construction than its historic share of the housing stock, market share has declined. Small multifamily properties have been squeezed out not only by single-family family homes, but also by the construction of larger multifamily properties and the proliferation of nontraditional housing types like mobile homes. In 1950, for example, buildings with two to four units comprised 19% of the housing stock. Today, they represent only 8%.

Distribution of U.S. Housing Units by Structure Type, 1950-2017



Share of Growth by Structure Type, 1950-2017

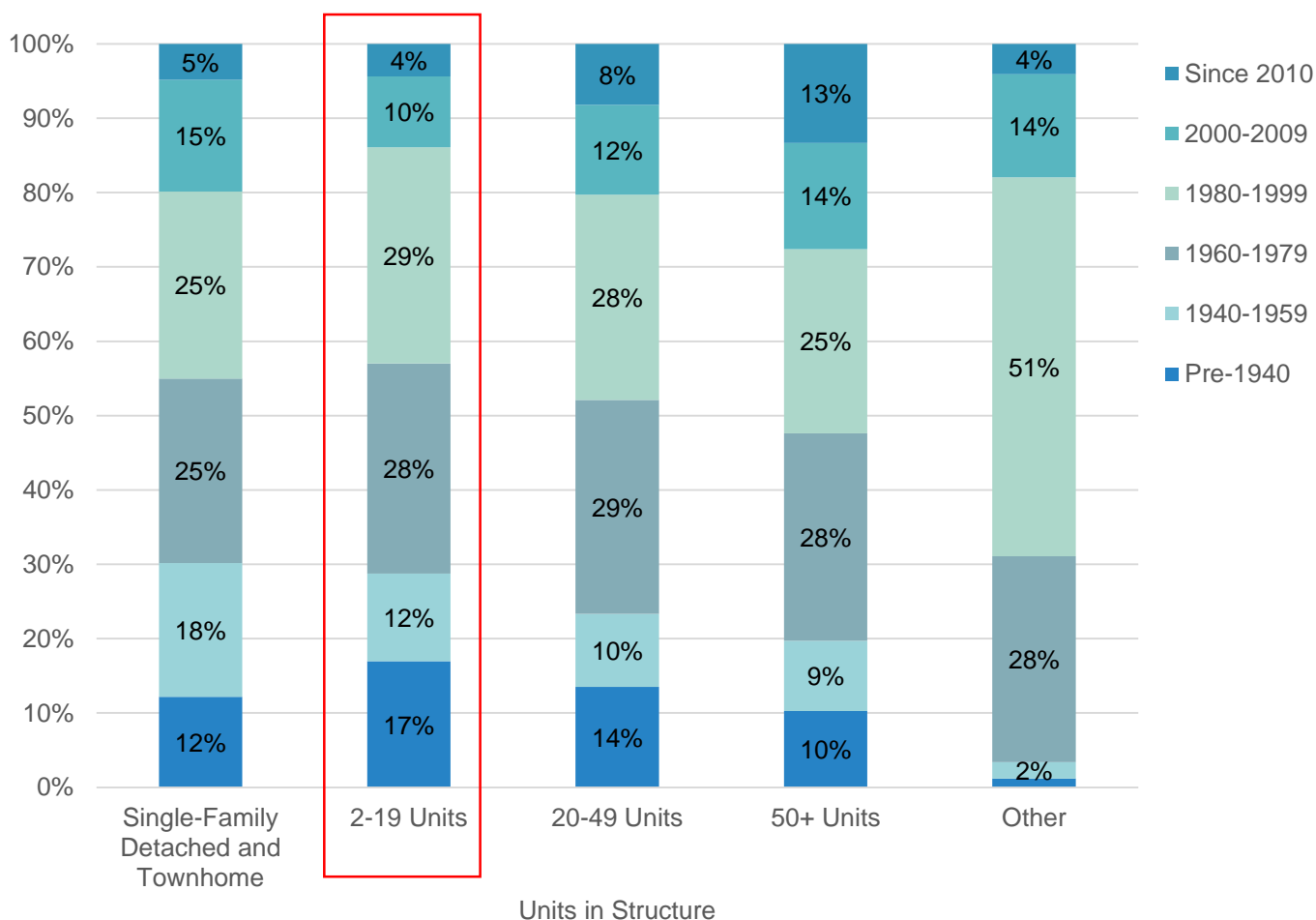


Graph by the author, with data from U.S. Census Bureau, Historical Census of Housing Tables: Units in Structure, 1940-2000; and U.S. Census Bureau, American Community Survey 1-Year Estimates, 2017.

Aging Middle Housing Inventory

Another consequence of the lack of middle housing construction is that the existing middle housing stock is disproportionately older than other types of residential units. Only 14% of structures with two to 19 units—in other words, middle housing units—were built since 2000, as compared to 20% of the single-family inventory and 27% for large multifamily buildings with at least 50 units. Middle housing also has the largest share of units from the pre-war period, with 17% of these units being built prior to 1940, before the postwar suburban boom. Even with proper maintenance and upgrades, these units are increasingly vulnerable to demolition, conversion, or redevelopment as they age, which would only further exacerbate the shortage of middle housing.

U.S. Housing Stock by Units in Structure and Age, 2017



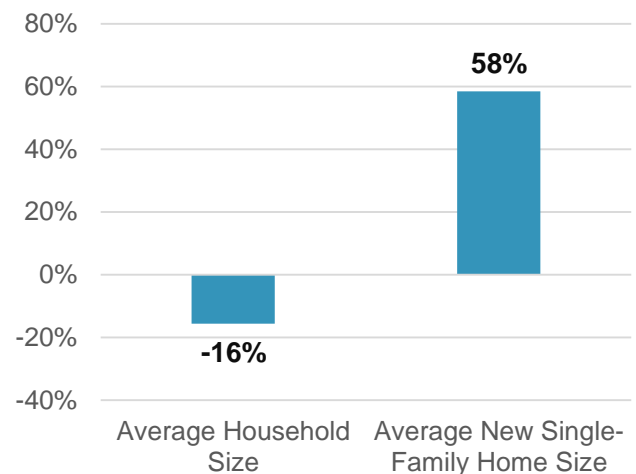
Graph by the author, with data from the U.S. Census Bureau, American Community Survey 1-Year Estimates, 2017.

Single-Family Homes Getting Bigger...

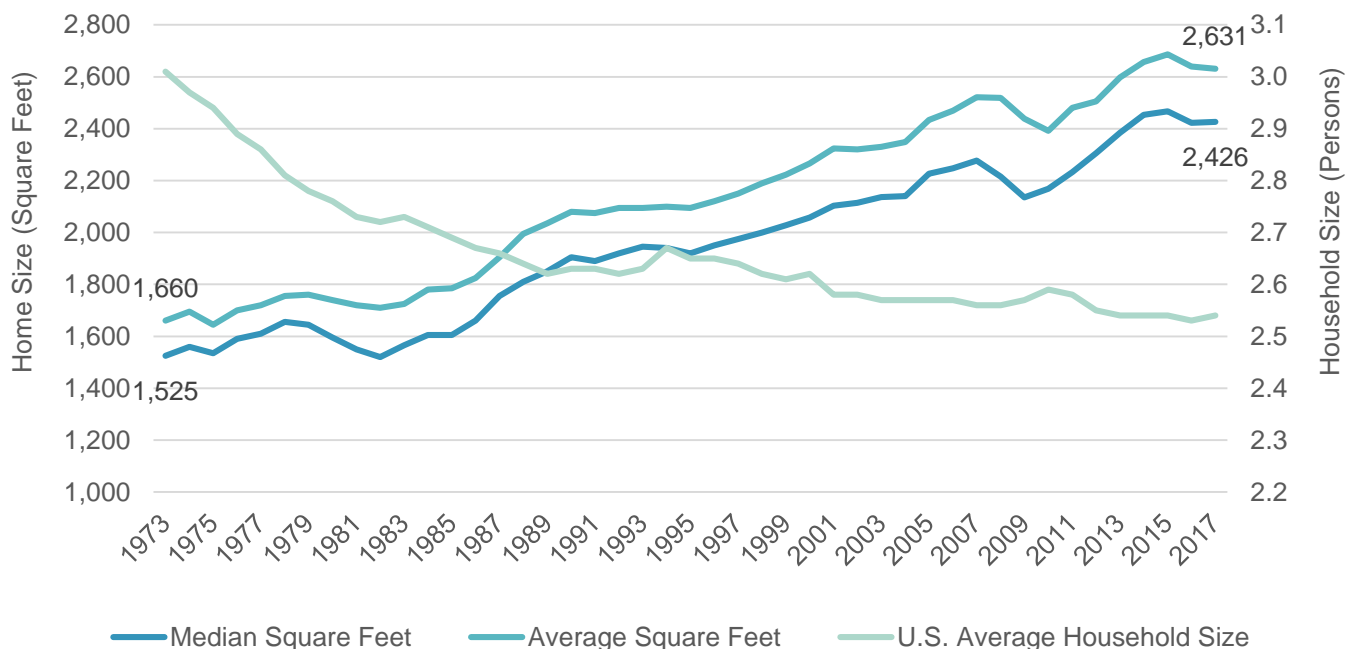
The market is not just building more single-family homes, it is building bigger single-family homes. This compounds the mismatch effect of over-building single-family units. The average size of a new single-family home increased by 971 square feet—58%!—between 1973 and 2017. Meanwhile, household size declined from 3 people per household to 2.5 people per household.

The graph below does show that home size did decline slightly in 2016 and 2017. However, this is more likely a reflection of market cyclicalities than a reversal of the decades-long trend toward larger homes, according to Chief Economist Robert Dietz at the National Association of Home Builders.¹ Indeed, the graph below shows mini peaks and troughs in home size that correspond to previous market highs and lows, respectively. The net effect is that the trajectory for new home size likely still points toward larger homes.

Change in U.S. Average Household Size and New Single-Family Home Size, 1973-2017



New Single-Family Home Size Versus U.S. Average Household Size, 1973-2017

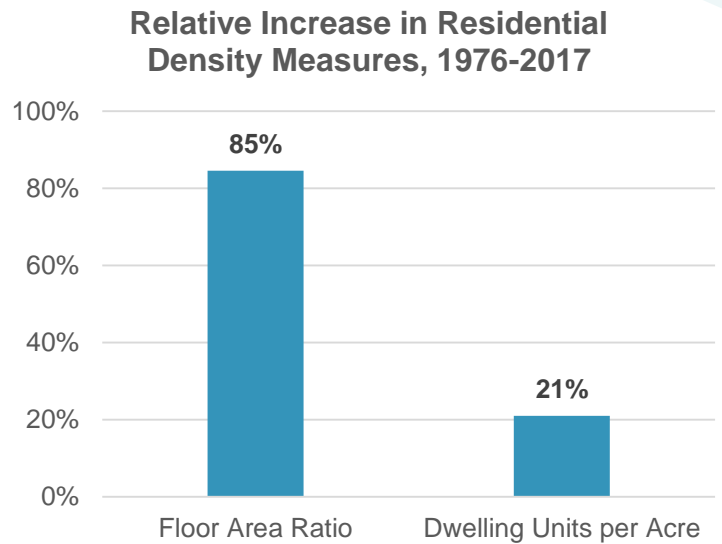


Graph by the author, with data from the U.S. Census Bureau, *Characteristics of New Housing Tables*; and Current Population Survey, March and Annual Social Economic Supplements, 1973-2017.

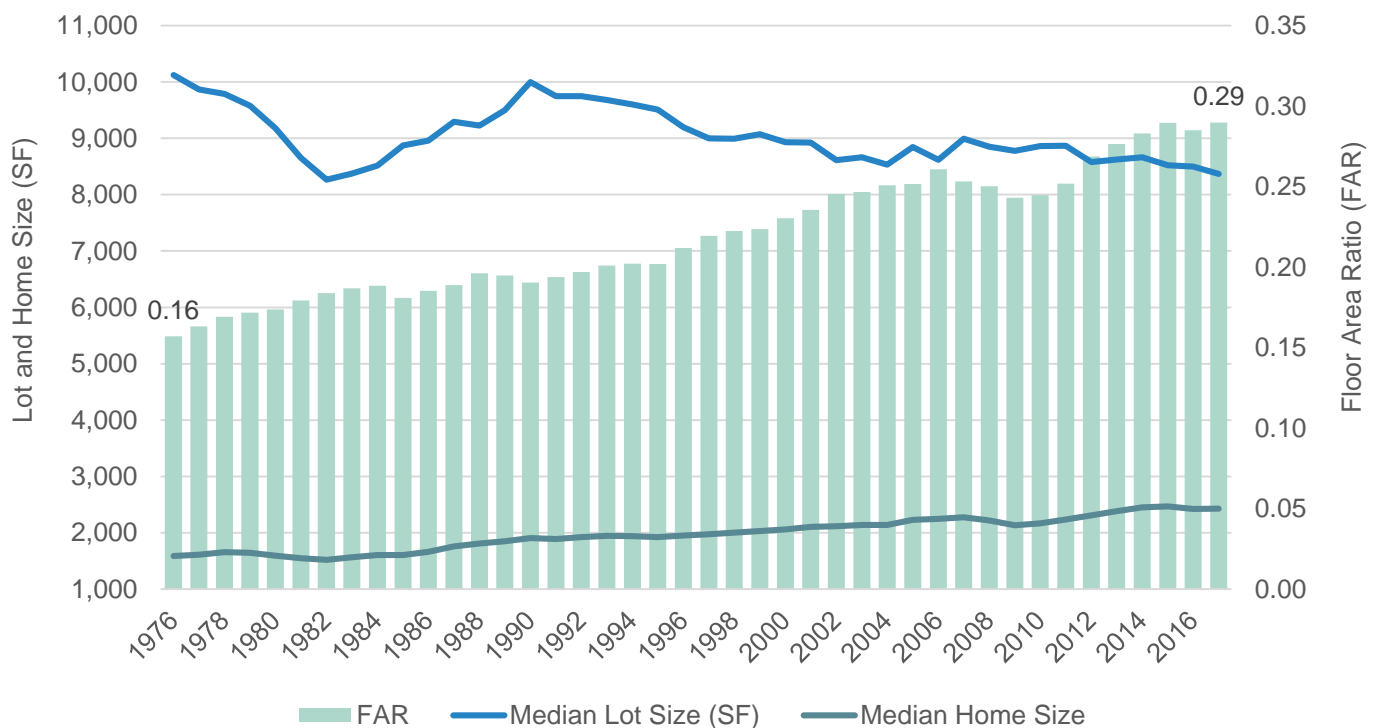
¹ Scotsman Guide, 2019.

...And Covering More of the Lot

At the same time that single-family homes are getting bigger, they are occupying more of the lot. Lot size of new homes has declined only slightly, from 10,125 SF in 1976 to 8,369 SF in 2017. The result is that floor area ratio has increased by 85% over this period, but dwelling units per acre has increased by only 21%, from 4.3 net units per acre to 5.2 units per acre. In other words, the built environment appears much more built-out, but it is not accommodating proportionately more households.



Median Lot Size and Floor Area Ratio of New Single-Family Homes in the United States, 1976-2017

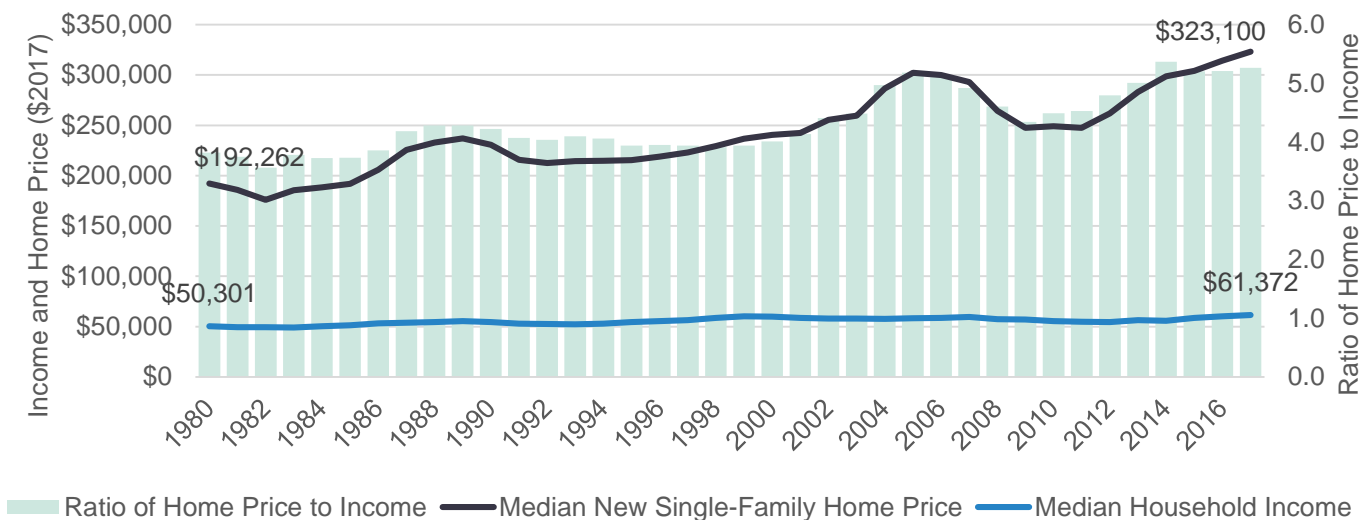


Graph by the author, with data from the U.S. Census Bureau, *Characteristics of New Housing Tables*.

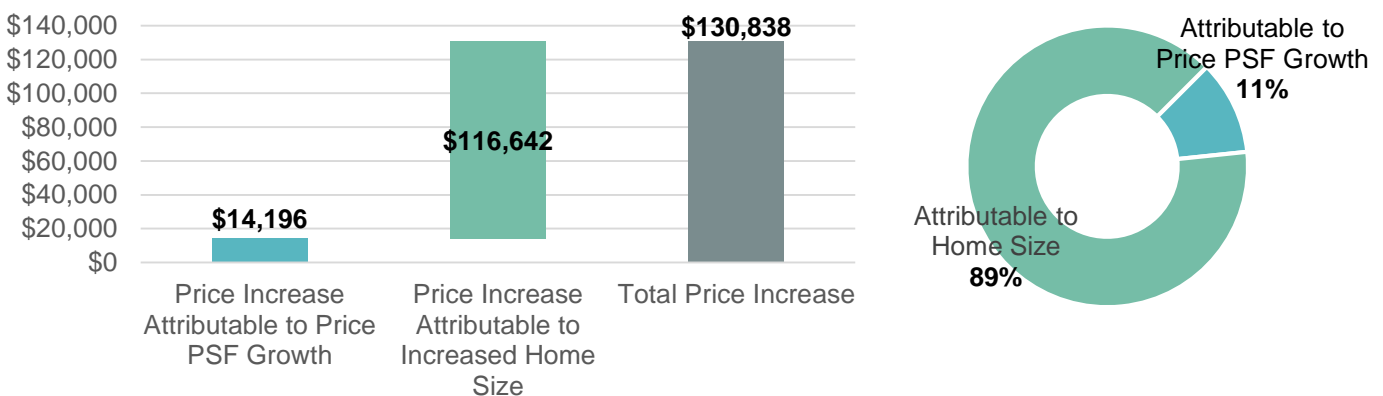
Home Size Pushing Pricing Up Faster than Incomes

Like home size, home pricing is cyclical, moving up or down in tandem with broader economic conditions. For example, the graph below shows the boom and bust in pricing in the years leading up to and following the 2008 recession, respectively. Even after taking this cyclical volatility in account, however, real median home prices have exhibited a steady upward trend. The median price of a new single-family home costs \$130,000 more today than a new home in 1980, after adjusting for inflation. This is a 68% increase, which is nearly three times more than the 22% that real household incomes increased over the same period. New housing is relatively more expensive, and almost all (89%) of this cost increase is attributable to the growing size of new homes, rather than increased pricing per square foot, which only increased from \$122 to \$137 in today's dollars.

U.S. Median New Home Price vs. Median Household Income (\$2017), 1980-2017



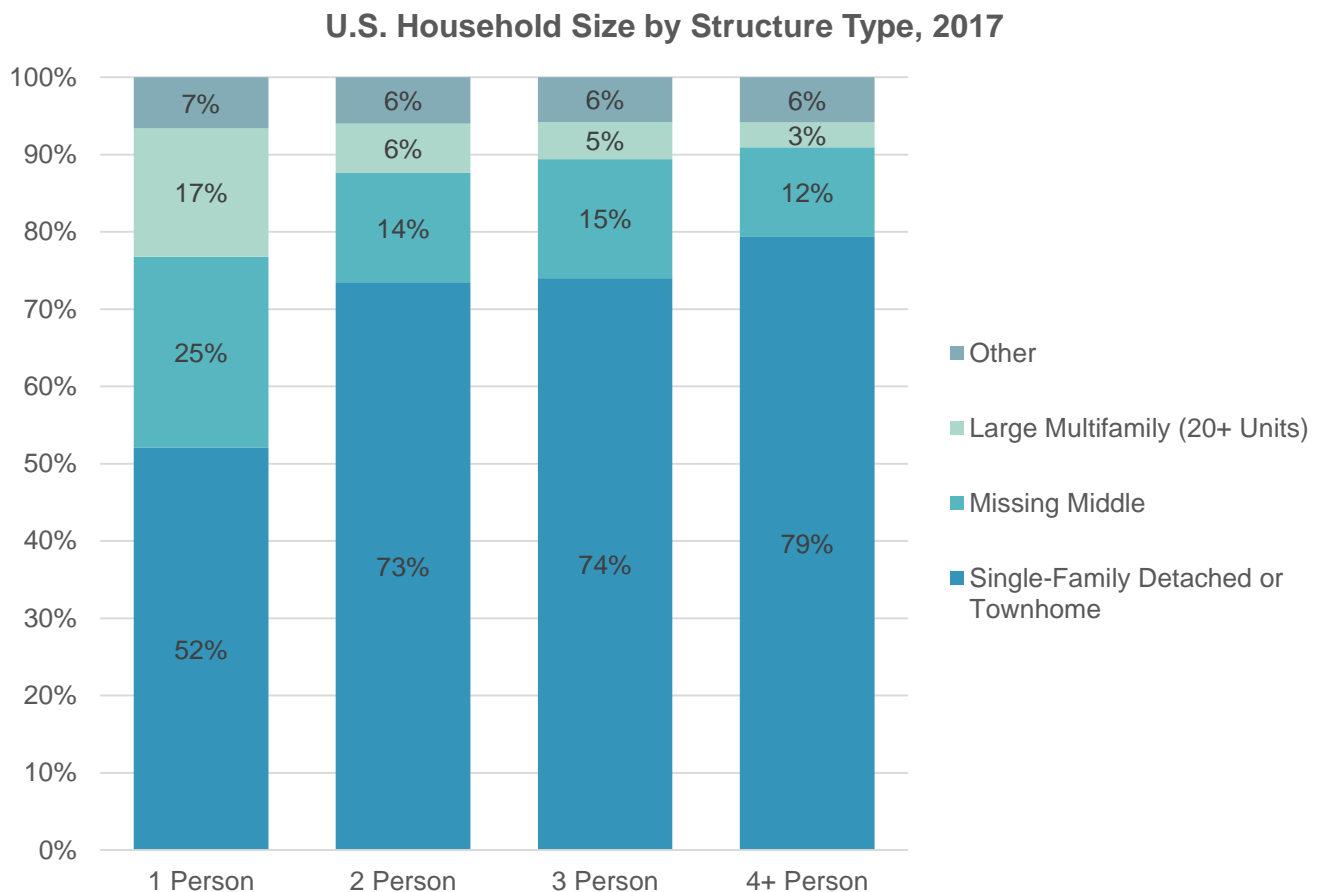
Components of New Home Price Increase (\$2017), 1980-2017



Graph by the author, with data from the U.S. Census Bureau, *Characteristics of New Housing Tables*; and U.S. Census Bureau, Current Population Survey, March and Annual Social Economic Supplements, 1980-2017.

Small Households Living in Big Homes

Given the growing disparity between shifts in housing demand and housing supply, and the resulting loss of housing alternatives for households, it is little surprise that many of even the smallest households live in single-family detached homes. More than half—52%—of single households live in single-family detached homes or townhomes today. Only one in four live in middle housing units. Moreover, the vast majority of two- and three-person households, also prime candidates for middle housing, also live in single-family homes. These households have even fewer housing alternatives than single households, as large multifamily properties tend to be weighted toward one-bedroom units.



Graph by the author, with data from the U.S. Census Bureau, American Community Survey 1-Year Estimates, 2017.

4. Policy Case for Middle Housing

Overview of Policy Case for Middle Housing

The market demand for middle housing is clear, as is the associated supply-side mismatch. In addition to consumer-driven demand for middle housing, there is also a public policy case. These policy arguments can be organized along the three dimensions of sustainability.¹ This alignment suggests that not only is middle housing appropriate for today's market, it is also a sustainable way to communities to grow.

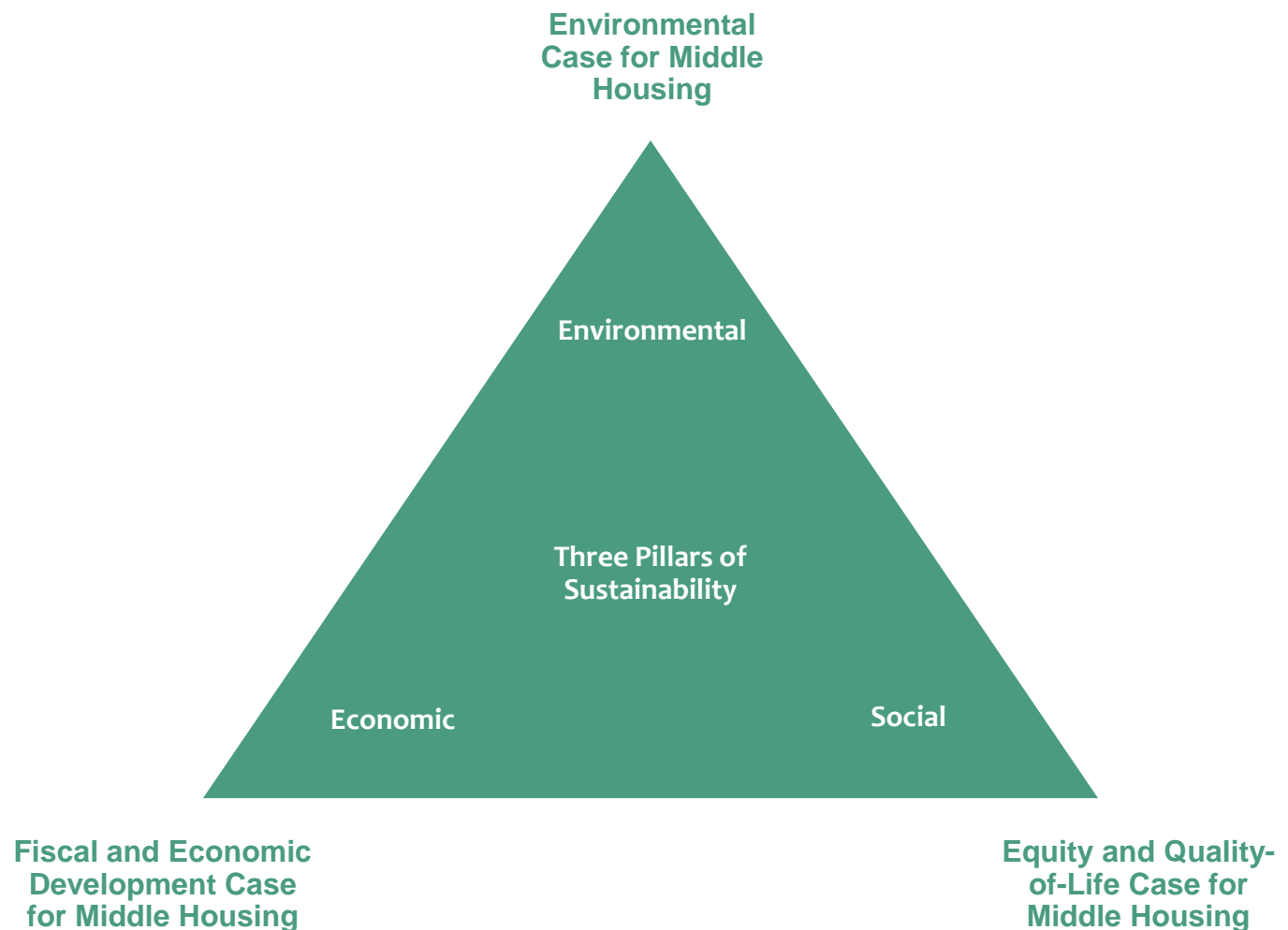


Diagram by the author.

¹ U.S. Environmental Protection Agency

Environmental Case

In *Urbanism in the Age of Climate Change*, prominent urbanist Peter Calthorpe concludes that the U.S. must decrease greenhouse gas emission to 12% of current levels by 2050 in order to arrest climate change at two degrees Celsius.¹ To achieve this “12% solution,” Calthorpe proposes a two-pronged strategy of urbanism and green technology. In so doing, Calthorpe elevates the profile of built environment patterns and land use with respect to their potential to impact climate change, and middle housing, as an element of traditional urbanism, can play an important role.

Favors Infill Locations over Greenfields

The ability to integrate new middle housing into existing neighborhoods and on infill sites allows us to increase the carrying capacity of already-developed areas without further encroaching on remaining greenfield locations. Middle housing is dense relative to single-family houses, but still compatible with single-family neighborhoods because of its scale. As such, middle housing is a way to introduce density in existing residential neighborhoods gracefully, without altering neighborhood character. The small footprint of middle housing buildings are also well suited to infill sites that are too small for midrise multifamily buildings, but for which single-family development is not necessarily the highest and best use.

Walkability Reduces Vehicle Use

The density and small footprint of middle housing also lends itself to neighborhoods with high walkability.² When neighborhoods are walkable and offer a mix of uses, more trips can be made on foot rather than in the car. Increasing non-vehicle trips is key to sustainability, as Calthorpe finds that transportation alone accounts for 30% of current U.S. carbon emissions.

Greener Construction Materials

Middle housing is also more environmentally sustainable from a materials perspective because it is wood-frame construction (“Type V” construction, in building code parlance).³ Wood is the only renewable building material, and the total energy associated with manufacturing and transporting lumber is much lower than concrete or steel.⁴ Concrete and steel, which are used to frame large buildings, have embodied energy of 12.5 megajoules per kilogram (MJ/kg) and 10.5 MJ/kg, respectively; wood has an embodied energy of only 2.0MJ/kg.⁵

¹ Calthorpe, 2011.

² Opticos Design. “What are the Characteristics of Missing Middle Housing?”

³ Ibid.

⁴ Allen and Thallon, 2016.

⁵ Hsu, 2010.

Fiscal and Economic Development Case

Middle housing also stands to offer important fiscal and economic development benefits.

Mechanism for Small-Lot and Suburban Infill

Middle housing makes small and/or irregular lots viable for multifamily housing. A lot that may require additional land assembly to accommodate the typical large apartments building that is the standard for multifamily development today may be sufficiently large to accommodate a middle project alone. The Massive Small Collective calls these projects “little infill.”¹ The result is that middle housing can bring more small infill properties into higher use with less time, cost, and risk. By extension, communities are able to grow the property tax base without incurring unsustainable costs of sprawling new infrastructure.² Importantly, infill development is not only an urban proposition. Infill development is also the mechanism for “retrofitting suburbia” by urbanizing existing suburban development patterns.³

Supports Small Business Development

Middle housing is too small to attract institutional capital, national developers, or even large local developers whose business models depend on economies of scale from large-scale development.⁴ Rather, middle housing is typically financed, built, and owned locally, which makes middle housing big business for small businesses. Small businesses are critical to local economies and a key constituency of local governments. A number of studies have shown that local small businesses return more money to the local economy than their national counterparts.⁵

Helps Attract and Retain Residents

Another key economic development benefit is the alignment between middle housing and walkable urbanism as an in-demand lifestyle today because quality-of-life is a source of economic competitiveness in the twenty-first century knowledge economy. Richard Florida calls it the “creative class” effect.⁶

¹ Massive Small Collective

² Smart Growth America, 2014.

³ Dunham Jones and Williamson, 2011.

⁴ Incremental Development Alliance

⁵ American Independent Business Alliance

⁶ Florida, 2002.

Quality-of-Life Case

Middle housing offers quality-of-life benefits that extend beyond the residents of middle housing units themselves to the entire community that benefits from middle housing's impact on retail viability and neighborhood character.

Enhances Retail Viability

There is a common phrase in the retail industry: "retail follows rooftops." In other words, retailers locate where their customers are, and retailers have thresholds for the number of customers that must be in the trade area before it is profitable for a retailer to open a new store. According to Opticos Design, the customer threshold for local shops and restaurants is approximately 16 dwelling units per acre.¹ Given that conventional new single-family homes are built at approximately three units per acre, and that middle housing is between eight and 60 units per acre, middle housing can provide the density boost a neighborhood needs to support more retail amenities. (A collateral benefit is that these small-scale mixed-use environments generate approximately 15 to 30 times more local tax revenue than urban neighborhoods that are purely single-family.²)

Maintains Neighborhood Character

When presented with plans for new development, preservation of neighborhood character is a common rallying cry for the opposition. However, as a result of their small massing and building footprint, "the perceived density of [middle housing] is usually quite low—they do not look like dense buildings."³ Additionally, middle housing lends itself toward incremental, lot-by-lot neighborhood change rather than large-scale redevelopment that is typical of development today. This pace of change "allow[s] neighborhoods to keep their charm but grow their market."⁴ That is, middle housing manages to both make room for new development and maintain the single-family look and feel of the neighborhood. Furthermore, the introduction of more middle housing would create more of a housing continuum than the barbell distributed of single-family and large multifamily that exists today, softening the abruptness of the transition from single-family to more dense development where it does occur.⁵

¹ Opticos Design. "What are the Characteristics of Missing Middle Housing?"

² Minicozzi, 2012.

³ Opticos Design. "What are the Characteristics of Missing Middle Housing?"

⁴ Incremental Development Alliance

⁵ Bradford, 2016.

Equity Case

Middle housing is a model for equitable development that offers affordability, income mixing, and avoids concentrating power or change in any one site or development entity.

Greater Affordability

Neighborhood, building age, and level of finish being equal, middle housing is less expensive than single-family homes because of its smaller unit sizes.¹ Middle housing can therefore lessen the housing cost burden for renter households and also open homeownership opportunities for people who cannot afford to purchase a single-family home. Daniel Parolek says that middle housing is “affordable by design”... thanks to its efficient use of space, communal features, and recommended location near public transit.”² Indeed, the potential to live a car-light or car-free lifestyle is a major boon for middle housing affordability, as the national average cost to own and operate a vehicle is over \$8,000.³

Promotes Mixed-Income Community

From a design perspective, middle housing blends into single-family communities quite easily. It has a similar architectural scale and fits on small lots. Middle housing’s most noticeable difference with respect to the single-family detached neighbors is its price point. Therefore, incorporating middle housing into a single-family neighborhood has the effect of providing a wider range of housing choices and housing price points in a given neighborhood. This in turn increases neighborhood income diversity.

Deconcentrates Change

Unlike large-scale developments that have the ability to single-handedly reset a neighborhood’s price-point or alter the community character, middle housing development is innately small-scale, on a lot-by-lot basis. As such, the community’s development becomes more of a diffuse and incremental endeavor, rather than any one project or entity having disproportional power or impact. This theory of change is more natural and sustainable because it reinforces the fundamental complexity of cities—and according to urbanist scholars like Jane Jacobs and Christopher Alexander, complexity is the key to compelling city design.^{4,5}

¹ Opticos Design. “What are the Characteristics of Missing Middle Housing?”

² Kolson Hurley, 2016.

³ AAA, 2017.

⁴ Jacobs, 1961.

⁵ Alexander, 1965.

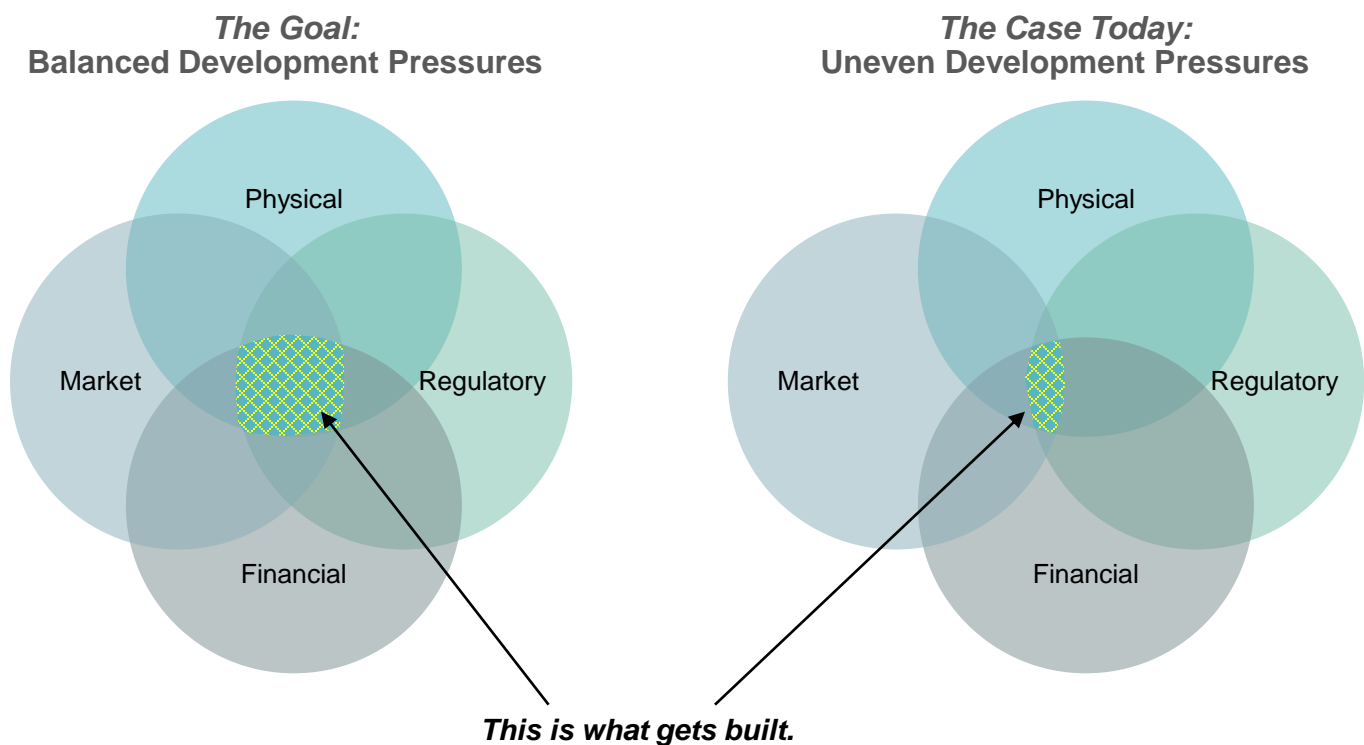
5. The Next Step: Overcoming Barriers to Building Middle Housing

The Next Step: Overcoming Barriers to Building Middle Housing

As this report makes clear, there is a discrepancy between market demand and what new housing supply looks like. Long-run economic and demographic trends suggest the divergence will only accelerate. How can the real estate development industry change course?

New construction is not a response to demand alone. Instead, what gets built is based on the convergence of physical, regulatory, financial, and market factors. The more aligned these factors are, the more construction that can occur. The fact that there is significant demand for middle housing but little new middle housing being built suggests regulatory and financial factors are not aligned with the market.

Research indicates that restrictive local zoning and development regulations, coupled with a lack of lending for middle housing projects, are key barriers to building more middle housing. A wealth of technical assistance resources and best practice information is available to help regulators overcome these constraints. Now that the market case for middle housing is apparent, putting these solutions into practice is the next step in the process to realizing the potential of the middle housing market.



Diagrams by the author, adapted from LaRue and Healy, 2016.

Regulatory Barriers

Local land use regulations often de facto prevent middle housing construction. Zoning restrictions are the single largest barrier. Most communities today regulate development through Euclidean zoning which separates land into different zones that correspond to certain land uses and development densities. Most low-rise residential neighborhoods that are compatible with middle housing are zoned exclusively for single-family detached housing.¹ Middle housing would require rezoning, but multifamily zones often allow densities or building envelopes that are much larger than a middle housing structure. This too works against middle housing. Development has high fixed costs, the biggest being the developer's commodity: land. As long as type of construction remains the same, the marginal costs of building a bigger structure is small relative to the total project cost and the increased revenue potential.² Going bigger amortizes the fixed costs over more units or more square feet, maximizing profit. Developers, therefore, will always try to maximize the developable square footage. The incentive to do so is even higher when impact fees are priced on a per-unit basis, regardless of size.³ Thus the regulations all but insure the only development that occurs are large single-family homes or large multifamily structures. Alan Mallach, a senior fellow at the Center for Community Progress, summarizes the regulatory conundrum for middle housing this way: "If you have a big site, you tend to go for the absolute maximum you can... And you can't get small sites because there's no suitable zoning."⁴

There are multiple approaches to overcome the barriers of traditional Euclidean zoning. Perhaps the most comprehensive approach is for municipalities to transition to a form-based code. This is the best practice advocated by Daniel Parolek's firm.⁵ Form-based codes still divide cities into zones, but the zones emphasize regulations related to building form, rather than building use. Each zone makes a range of housing typologies permissible.

Another regulatory approach is to follow the example set by Minneapolis, which recently eliminated single-family zoning.⁶ All zones that had previously been restricted to single-family uses now allow residential structures of up to three units as of right.

¹ Opticos Design. "What's the Best Way to Regulate Missing Middle Housing?"

² Willis, 2019.

³ Kolson Hurley, 2016.

⁴ Ibid.

⁵ Opticos Design. "What's the Best Way to Regulate Missing Middle Housing?"

⁶ Mervosh, 2018.

Financial Barriers

The influence of regulations on project economics, as discussed on the previous page, is perhaps the largest financial barrier to middle housing. However, financing middle housing is also difficult.

Real estate development is capital-intensive. It typically requires assembling project capital from multiple sources, including forms of both debt and equity. As middle housing construction has become less conventional, it has become harder to find people or entities to invest in these projects, says Stockton Williams, director of the Terwilliger Center for Housing at the Urban Land Institute.¹ This is a matter of both project scale and developer credentials. Below 50 units or so, projects have a difficult time finding willing investors because many investors, particularly the most sophisticated investors that control the largest pools of funding, are looking to place a large amount of money at a time.² The project gap may be surmountable for the smallest missing middle deals, like a single duplex. However, Stockton acknowledges that projects of four to 49 units are harder to fund. Developers of middle housing also tend to be small companies with limited track records and small balance sheets. Given that every real estate project is unique, lenders and investors rely heavily on personal credentials when determining whether to participate.³

There are some specialized funds for small-scale projects, such as Fairway America, as well as traditional small developer sources like high net worth individuals and “friends and family” money, but more investment vehicles and loan products are needed to expand the pool of capital available to build middle housing projects.⁴

¹ Kolson Hurley, 2016.

² Heid, 2016.

³ Incremental Development Alliance

⁴ Heid, 2016.

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